

Board Meeting Agenda

11 April 2018

9.15 am to 5.00pm

Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
1.45 pm	4	<u>Restructured Code of Ethics</u>			
	4.1	Board meeting summary paper	Consider	Paper	
	4.1.1	Breaches compelling reason test	Note	Paper	
	4.1.2	Breaches comparison	Consider	Paper	
	4.1.3	NOCLAR compelling reason test	Consider	Paper	
	4.1.4	NOCLAR comparison	Consider	Paper	
	4.1.5	PIE & other provisions compelling reason test	Consider	Paper	
	4.1.6	PIE & other provisions analysis	Consider	Paper	
	4.2	Draft restructured PES 1	Consider	Paper	
	4.3	NZ specific content mapping	Consider	Paper	
	4.4	NZ specific contextual changes	Consider	Paper	
2:45 pm	5	<u>NSS topics</u>			
	5a	Introduction by Chair	Note	Paper	
		<u>NSS - IAASB topics</u>			
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Matters to discuss	Consider	Paper	
	5.3	Draft ED ISQC1 (Revised)	Note	Paper	
	5.4	SME audits survey results	Note	Paper	
3:15 pm	<i>Afternoon tea</i>				
3:30 pm	6	<u>NSS – IESBA topics</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Matters to discuss	Consider	Paper	
	6.3	Draft Strategy and work plan consultation paper	Note	Paper	
4.00 pm	7	<u>CA ANZ ITC AUP</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Draft submission	Consider	Paper	
	7.3	CA ANZ ITC on ED AUP	Note	Paper	
4:30 pm	8	<u>Answering questions at AGMs</u>			
	8.1	Board meeting summary paper	Consider	Paper	
	8.2	GS 010 Responding to Questions at an Annual General Meeting	Note	Paper	

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1

Meeting date: 11 April 2018

Subject: Restructured and Revised Code of Ethics

Date: 27 March 2018

Prepared by: Sharon Walker

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Objectives

1. The objective of this agenda item is:
 - To AGREE the drafting conventions and proposed changes to the International Code used in the draft restructured PES 1.
 - For the Board to CONSIDER the compelling reason material presented and DETERMINE whether the compelling reason tests have been met with respect to the extant compelling reason amendments relating to other assurance engagements in PES 1 (Revised).

Background

2. Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*, issued by the NZAuASB is based on the Code of Ethics for Professional Accountants (the International Code) issued by the International Ethics Standards Board for Accountants (IESBA).
3. In January 2018 the IESBA released a document with the approved restructured text of the International Code, excluding the Inducement provisions. The IESBA is expected to release the final version of the International Code, excluding Inducements, once the Public Interest Oversight Board (PIOB) approves the text at their March 2018 meeting (held on March 22-23).
4. We have prepared a draft restructured PES 1 using the approved restructured text of the International Code. Refer to *Agenda Item 4.2* for the draft restructured PES 1. The draft restructured PES 1 is based on the revised and restructured International Code plus amendments required to tailor the International Code for the New Zealand environment.

5. The IESBA revisions stem from the completion of three significant projects and one completed short-term project:
 - Structure of the Code;
 - Safeguards and the applicability to Non-Assurance Services;
 - Review of Part C of the Code (including applicability); and
 - Professional scepticism (short-term project).
6. The IESBA also included consequential amendments to its recently finalised projects on noncompliance with laws and regulations and the long association of senior personnel with an audit or assurance client.

Revisions to tailor content to NZ environment

7. The International Code is used as the as the base for the draft restructured PES 1 however, additional amendments are required to tailor the International Code to the New Zealand environment.
8. We performed an analysis of the New Zealand specific content in extant PES 1 (Revised), in terms of whether the content:
 - Is still relevant for the draft restructured Code; and
 - Needs amendment to be consistent with the new drafting conventions applied in the International Code.

Refer to Agenda Item 4.3 for the details of the analysis performed on the New Zealand content in extant PES 1 (Revised).

9. In addition, we reviewed the text of the restructured International Code to determine if additional New Zealand changes are required. Based on the analysis performed, we have included the following amendments from the restructured International Code in draft restructured PES 1.
 - The addition of (New Zealand) to the title;
 - The addition of a Scope and Application section;
 - Deletion of Part 2, Professional Accountants in Business
 - Deletion of Section 230, Second Opinions;
 - Renaming of Part 3, Professional Accountants in Public Practice, to Part 3, Application of the Code, Fundamental Principles and Conceptual Framework;
 - Amending the text to reflect the mandate of the NZAuASB to set ethical standards for assurance practitioners (*refer Agenda Item 4.4*);

- Designating any New Zealand specific paragraphs and definitions with an NZ prefix;
- The additional New Zealand definitions are: assurance practitioner, assurance services, FMC reporting entity considered to have a higher level of public accountability, key assurance partner, offer document, public benefit entity;
- The following IESBA definitions are tailored to the New Zealand environment: assurance client, assurance team, audit client, public interest entity.

Many of these amendments are consistent with the changes that were required when drafting extant PES 1 (Revised).

10. Certain amendments made to extant PES 1 (Revised) in relation to other assurance engagements are not included in the draft restructured PES 1 pending discussion of the compelling reason changes as discussed below (see paragraphs 21-31).

Consideration of Issues

Title

11. We have proposed to rename the standard, Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. Adding New Zealand to the title indicates that the standard has been amended for New Zealand purposes, while retaining International in the title indicates that PES 1 is based on the International Code.

12. Does the Board agree with adding New Zealand to the title? Is New Zealand in the correct position?
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Guide to the Code

13. The restructured International Code includes a Guide to the Code which is a non-authoritative aid to using the International Code. The Guide addresses how the International Code is structured; how to use the International Code; the authority of requirements and application material.

14. Does the Board agree with including the Guide to the Code in draft restructured PES 1?
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Part 3 of the International Code

15. Part 3 – Professional Accountants in Public Practice, of the International Code, has been renamed for use in New Zealand as Part 3 – Application of the Code, Fundamental Principles and Conceptual Framework. Renaming Part 3 is necessary as the NZAuASB's mandate is limited to assurance practitioners undertaking statutory assurance engagements.

16. Does the Board agree with the revised title for Part 3?

Glossary

17. The glossary included in the International Code includes defined terms. Explanations of defined terms are included in regular font.

18. In addition, the glossary includes explanations of described terms which have a specific meaning in certain parts of the International Code or for additional explanations of defined terms. References are also provided to terms described in the International Code. Italicised text is used to denote these terms. We propose to include both the defined terms and the described terms in the draft restructured PES 1.

19. The glossary also includes a list of abbreviations and standards referred to in the International Code. These abbreviations are specific to the International Code. We propose not to include the list of abbreviations in the draft restructured PES 1. Rather, when each term is used in the draft restructured PES 1 we will provide the full title in the text of the paragraph or by footnote reference.

20. Does the Board agree with the proposed approach?

Compelling Reason Amendments – Other Assurance

21. Historically, the Board has extended the independence requirements applicable to audit and review engagements to all assurance engagements. The Board was of the view that the same level of assurance is being provided, therefore the independence requirements for audits and reviews of financial statements are appropriate for all assurance engagements. This extended also to those requirements that are specific to public interest entities. The same logic was applied in extending the NOCLAR provisions for audit and review engagements to other assurance engagements.

22. Recent research commissioned by the Board has provided valuable insight about other assurance engagements, including the types of engagements that are being carried out. In light of this new knowledge concerns have been raised within the Board that extending the provisions for audit and review engagements to other assurance engagements may have been based on an uninformed understanding of the market. Hence, there is a concern that the compelling reason test may not be met for other assurance engagements.

23. The Board established a Subcommittee¹ to further consider whether the compelling reason amendments made to the Code in respect of other assurance engagements, i.e., those amendments included throughout Section 291, *Independence – Other Assurance Engagements*, along with amendments made to Section 225, *Responding to Non-*

¹ Subcommittee members are Clyde D’Souza, Ian Marshall, Marje Russ, and Rowena Sinclair.

Compliance with Laws and Regulations, continue to meet the compelling reason test (see Appendix 1 for the compelling reason test criteria).

24. Examples of other assurance engagements

- Audit of specific elements, accounts or items of a financial statement
- Any direct reporting engagement: audit of effectiveness of internal controls, audit of controls at a service organisation
- Sustainability reports and EER
- Assurance over environmental performance for example, Greenhouse gas statements, GHG emissions, assurance on an emission calculation or emission profile, assurance over the environmental performance of a product

For an assurance engagement where the subject matter is any type of financial information included in an offer document, the independence requirements of Part 4A apply (previously section 290). Similarly, the assurance practitioner will need to consider the provisions of Part 4A if a non-audit assurance engagement is performed for an audit or review client.

25. The Board considered the initial views of the Subcommittee at its February 2018 meeting and requested the Subcommittee to present further information to the Board at the April meeting including:

- a comparison of the extant requirement to the IESBA requirement where the Subcommittee is recommending reverting back to the IESBA wording; and
- The Subcommittee's compelling reason test analysis.

26. The requested material is attached as follows:

Attachment 1	Breaches – compelling reason test
Attachment 2	Breaches – comparison of provisions
Attachment 3	NOCLAR – compelling reason tests
Attachment 4	NOCLAR – comparison of provisions
Attachment 5	PIE and other provisions – compelling reason tests
Attachment 6	PIE and other provisions – comparison of provisions

27. For each amendment group, the comparison of the provisions and the compelling reason test are best reviewed side by side. Accordingly, Board members may find it helpful to print attachments 1-6.

28. Starting with the International Code, the Subcommittee has taken the approach that the decision to add or remove the extant additional NZ paragraphs must be justified, i.e., the compelling reason test must be met to add the paragraph. Similarly, the extant NZ paragraph can only be removed if the compelling reason test has not been met.
29. In considering each group of compelling reason changes the Subcommittee has kept in mind the mandate of the NZAuASB; the development, approval and promulgation of auditing and assurance and professional and ethical standards for auditors undertaking statutory assurance engagements². At the same time, the Subcommittee has considered the scope of ISAE (NZ) 3000 (Revised) which deals with assurance engagements other than audits or reviews of historical financial information. In particular, ISAE (NZ) applies to both financial and non-financial information. Many of the assurance engagements undertaken in accordance with ISAE (NZ) 3000 (Revised) will not be statutory assurance engagements. However, having adopted ISAE (NZ) 3000 (Revised) we have an obligation to ensure that our Code of Ethics works with that standard.
30. The focus of the Subcommittee is to ensure the Code is forward looking, recognising that the market for other assurance services is still developing and that other assurance engagements will have a wide range of possible subject matters and subject matter information and will be performed to meet a wide range of user needs.
31. The purpose of the comparisons and the compelling reason tests is to create discussion among the Board to determine whether or not to retain the various amendments.

Matters for Consideration

32. The Board is asked to
- AGREE the drafting conventions and proposed changes to the International Code used in the draft restructured PES 1.
 - CONSIDER the compelling reason material presented and DETERMINE whether the compelling reason tests have been met.

Material Presented

4.1	Board meeting summary paper
4.1.1	Breaches – compelling reason test
4.1.2	Breaches – comparison of provisions
4.1.3	NOCLAR – compelling reason tests
4.1.4	NOCLAR – comparison of provisions
4.1.5	PIE and other provisions – compelling reason tests
4.1.6	PIE and other provisions – comparison of provisions
4.2	Draft restructured PES 1

² Terms for reference for the New Zealand Auditing and Assurance Standards Board, 24 August 2011

4.3	NZ specific content mapping
4.4	NZ contextual changes

*Compelling Reason Test: Breaches**Modification: Breaches of the independence requirements for other assurance engagements*

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>Amend the provisions in Part 4B of the International Independence Standards, <i>Independence for Assurance Engagements Other Than Audit and Review Engagements</i>, so that the same framework that applies to Part 4A, <i>Independence for Audit and Review Engagements</i>, also applies to Part 4B when there has been a breach of the independence provisions.</p> <p>Paragraphs affected R900.50-R900.55</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The International Code includes an abbreviated version of the provisions for addressing a breach of the independence requirements in Part 4B (previously section 291). The NZAuASB was of the view that there is no reason why an abbreviated framework would apply to a breach of the independence requirements when performing other assurance engagements (under section 291) compared to an audit or review engagement (under section 290, now part 4A). The consequences of a breach of independence are as significant regardless of the subject matter of the engagement. The NZAuASB has therefore included the same framework as described in Section 290 within Section 291.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in	n/a

lesser requirements than the international standard.	
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB	As identified by the analysis comparing the International Code (refer attachment 2) other assurance provisions (section 900) with the audit and review provisions (section 400), the two frameworks result in substantially the same action taken by the assurance practitioner when a breach of the independence requirements is identified. The abbreviated framework in section 900 is more principles based. In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing the breach.
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modification would result in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	There is no evidence to support a significant improvement in audit quality. The comparison of the two frameworks indicates that the assurance practitioner would perform substantially the same procedures.
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	The modification would not conflict with or result in lesser requirements than the International Code.

6. The proposed modification overall does not result in the standard being overly complex and confusing.	The modification may cause confusion among assurance practitioner trying to fit the response to a breach into the financial assurance model.
7. The proposed modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international.	The modification places more onerous requirements on a practitioner in NZ than necessary to meet the intent of the International Code. As indicated by the comparison of the frameworks, the Subcommittee is of the view that the two frameworks result in substantially the same action taken by the assurance practitioner when a breach of the independence requirements is identified.
Conclusion	Based the above, the Subcommittee is of the view that the compelling reason test has not been met.

Breaches of the independence requirements

This table compares the provisions of extant PES 1 (Revised) section 291 with the restructured International Code section 400 (audit and review) and section 900 (other assurance). Yellow highlight is used to identify differences between the International frameworks, section 400 and section 900. Extant PES 1 (Revised) is included for information.

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
	Breach of an Independence Provision for Audit and Review Engagements	Breach of an Independence Provision for Assurance Engagements Other Than Audit and Review Engagements	
<i>Breach of a Provision of this Section</i>	<i>When a Firm Identifies a Breach</i>	<i>When a Firm Identifies a Breach</i>	
<p>NZ291.34 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.</p> <p>NZ291.37 Depending upon the significance of the breach, it may be necessary to terminate the assurance engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination the firm shall exercise professional judgement</p>	<p>R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:</p> <p>(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;</p> <p>(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:</p> <p>(i) Comply with those requirements; and</p> <p>(ii) Consider reporting the breach to a professional or regulatory body or oversight authority if</p>	<p>R900.50 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:</p> <p>(a) End, suspend or eliminate the interest or relationship that created the breach;</p> <p>(b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and</p> <p>(c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.</p> <p>In making this determination, the firm shall exercise professional judgment</p>	<p>Consideration of whether legal or regulatory requirements apply to the breach is necessary regardless of whether or not the Code specifies consideration.</p> <p>Paragraphs 20-25 of PES 3 (Amended) address compliance with relevant ethical requirements including independence and the communication of breaches. ISAE (NZ) 3000 (Revised) requires the firm to apply PES 3 (Amended) or other professional requirements that are at least as demanding.</p> <p>The Subcommittee is of the view that the detailed requirements applicable</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an assurance report.</p>	<p>such reporting is common practice or expected in the relevant jurisdiction;</p> <p>(c) Promptly communicate the breach in accordance with its policies and procedures to:</p> <ul style="list-style-type: none"> (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; <p>(d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and</p> <p>(e) Depending on the significance of the breach, determine:</p> <ul style="list-style-type: none"> (i) Whether to end the audit engagement; or 	<p>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 assurance report.</p>	<p>to audit and review engagements (highlighted) are addressed by the requirements of PES 3 (Amended) and the need to follow applicable law or regulation.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
	<p>(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.</p> <p>In making this determination, the firm shall exercise professional judgment 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 report.</p>		
<p>NZ291.33 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of such a breach may be that termination of the assurance engagement is necessary.</p>	<p>400.80 A1 A breach of a provision of this Part 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 engagement because of the breach.</p>		<p>Guidance supporting the requirement in paragraph R400.80. Not essential material. Considered “nice to have”.</p>
<p>NZ291.36 When a breach is identified, the firm shall in accordance with its policies and procedures, promptly</p>	<p>400.80 A2 The significance and impact of a breach on the firm’s</p>		<p>Guidance supporting the requirement in paragraph R400.80. Not essential material. Considered “nice to have”.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>communicate the breach to the engagement partner, those with responsibility for policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The significance of the breach will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature and duration of the breach; • The number and nature of any previous breaches with respect to the current assurance engagement; • Whether a member of the assurance team had knowledge of the interest or relationship that caused the breach; • Whether the individual who caused the breach is a member of the assurance team or another 	<p>objectivity and ability to issue an audit report will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature and duration of the breach. • The number and nature of any previous breaches with respect to the current audit engagement. • Whether an audit team member had knowledge of the interest or relationship that created the breach. • Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements. • If the breach relates to an audit 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. 		

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>individual for whom there are independence requirements;</p> <ul style="list-style-type: none"> • If the breach relates to a member of the assurance team, the role of that individual; • If the breach was caused by the provision of a professional service, the impact of that service, if any, on the subject matter or subject matter information on which the firm will express an opinion; and • The extent of the self-interest, advocacy, intimidation or other threats created by the breach. 	<ul style="list-style-type: none"> • The extent of the self-interest, advocacy, intimidation or other threats created by the breach. 		
<p>NZ291.38 Examples of actions that the firm might consider include:</p> <ul style="list-style-type: none"> • Removing the relevant individual from the assurance team; • Conducting an additional review of the affected assurance work or re-performing that work to the extent necessary, in either case using different personnel; • Recommending that the assurance client engage another firm to review or re-perform the affected 	<p>400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:</p> <ul style="list-style-type: none"> • Removing the relevant individual from the audit team. • Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary. 		<p>Guidance supporting the requirement in paragraph R400.80. Not essential material. Considered “nice to have”.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>assurance work to the extent necessary; and</p> <ul style="list-style-type: none"> Where the breach relates to a non-assurance service that affects the subject matter or subject matter information, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service. 	<ul style="list-style-type: none"> Recommending that the audit client engage another firm to review or re-perform the affected audit 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 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. 		
<p>NZ291.39 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement. Where</p>	<p>R400.81 If the firm determines that action cannot be taken 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 engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws</p>	<p>R900.51 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal</p>	<p>Communication in other assurance engagement is with the party that engaged the firm or those charged with governance. In an audit/review, those charged with governance engage the firm.</p> <p>This communication requirement recognizes that in an other assurance engagement, the assurance practitioner may not have access to TCWG or the matter may be deemed</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p>	<p>or regulations, the firm shall comply with any reporting or disclosure requirements.</p>	<p>or regulatory requirements relevant to ending the assurance engagement.</p>	<p>to be of less importance to TCWG. The assurance practitioner uses professional judgement to determine the appropriate party with whom to communicate.</p> <p>R400.81 makes an allowance for situations where the firm is not permitted by law or regulation to end the audit. When this is the case, law or regulation will determine the reporting or disclosure requirements.</p>
<p>NZ291.40 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches. The matters to be discussed shall include:</p> <ul style="list-style-type: none"> The significance of the breach, including its nature and duration; 	<p>R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:</p> <ol style="list-style-type: none"> The significance of the breach, including its nature and duration; How the breach occurred and how it was identified; 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 report; The conclusion that, in the firm's 	<p>R900.52 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.</p>	<p>Requirement is substantially the same, albeit R400.82 is significantly more granular.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<ul style="list-style-type: none"> • How the breach occurred and how it was identified; • The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an assurance report; • The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and • Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring. 	<p>professional judgment, objectivity has not been compromised and the rationale for that conclusion; and</p> <p>(e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.</p> <p>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.</p>		
	<p><i>Communication of Breaches to Those Charged with Governance</i></p>		
	<p>400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.</p>	<p>R300.9 When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the</p>	<p>R300.9 and R300.10 apply to all assurance practitioners and therefore are applicable to other assurance engagements. The application material referencing R300.9 and R300.10 is not considered essential to include for other assurance engagements.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
		<p>assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.</p> <p>R300.10 If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.</p>	
<p>NZ291.41 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph NZ291.40 and obtain the concurrence of those charged with governance that action can be, or has been taken to</p>	<p>R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:</p> <p>(a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with</p>		<p>ISAE (NZ) 3000 (Revised) requires the assurance practitioner to consider whether... any matter has come to the attention of the assurance practitioner that is to be communicated [to various parties including those charged with governance].¹ There is no specific</p>

¹ ISAE (NZ) 3000 (Revised), paragraph 78

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
satisfactorily address the consequences of the breach. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. <i>If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</i>	governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and (b) A description of: (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.		requirement for this communication to be in writing. R900.54 requires those matters discussed with TCWG to be documented. The Subcommittee is of the view that the requirements of ISAE (NZ) 3000 (Revised) and section 900 (R900.51-R900.52) of the International Code, are consistent with the requirements of section 400.
NZ291.41 <i>If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm</i>	R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph	R900.53 If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the	Similar requirement

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<i>shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</i>	R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.	firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.	
	<i>Breaches Before the Previous Audit Report Was Issued</i>		
NZ291.42 If the breach occurred prior to the issuance of the previous assurance report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an assurance report in the current period. <i>The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued assurance reports, and the possibility of withdrawing such assurance reports,</i>	R400.86 If the breach occurred prior to the issuance of the previous audit 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 report in the current period.		The requirement applicable to audit and review engagements is based on the annual nature of the engagement. Other assurance engagements are not always performed on an annual basis. In the case of other assurance engagements, if a breach occurs, paragraphs R900.50-R900.52 apply.

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<i>and discuss the matter with those charged with governance.</i>			
NZ291.42 <i>The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued assurance reports, and the possibility of withdrawing such assurance reports, and discuss the matter with those charged with governance.</i>	R400.87 The firm shall also: (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and (b) Discuss the matter with those charged with governance.		The requirement applicable to audit and review engagements is based on the annual nature of the engagement. Other assurance engagements are not always performed on an annual basis. In the case of other assurance engagements, if a breach occurs, paragraphs R900.50-R900.52 apply.
	<i>Documentation</i>	<i>Documentation</i>	
NZ291.43 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a professional body, relevant regulator or oversight authority. <i>When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the</i>	R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document: (a) The breach; (b) The actions taken; (c) The key decisions made; (d) All the matters discussed with those charged with governance; and	R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document: (a) The breach; (b) The actions taken; (c) The key decisions made; and (d) All the matters discussed with the party that engaged the firm or those charged with governance.	Hard to argue that discussions with a professional or regulatory body or oversight authority should not be documented in an other assurance engagement. Implied by R900.54 (a)-(c)?

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<i>rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.</i>	(e) Any discussions with a professional or regulatory body or oversight authority.		
NZ291.43 <i>When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.</i>	R400.89 If the firm continues with the audit engagement, it shall document: (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.	R900.55 If the firm continues with the assurance engagement, it shall document: (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.	Same requirement

Compelling Reason Test: NOCLAR

Compelling reason tests are included in this paper for the following modifications:

#	Modification	Additional materials
1	Aligning of requirements for review engagement with those for audit engagements	N/A
2a.	<i>Align requirements for other assurance engagements with those for audit engagements – Addressing the Matter</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.18 – 225.20)
2b	<i>Align requirements for other assurance engagements with those for audit engagements – Further Action is Needed</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.23 – 225.30)
2c	<i>Align requirements for other assurance engagements with those for audit engagements – Obtaining an Understanding of the Matter</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.12 – 225.17)
2d	<i>Align requirements for other assurance engagements with those for audit engagements –Documentation</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.37 – NZ225.38.1)

Modification 1: Align requirements for review engagements with those for audit engagements

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>Section 360, paragraphs R360.10 – 360.28 A1 that apply only to auditors performing audits of financial statements are expanded to apply also to review engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	<p>The reason given by IESBA for not aligning the requirements was that the provision of a review engagement varies significantly around the world and that audits tend to be more significantly legislated or regulated than other assurance engagements¹.</p> <p>We consider that due to the NZ legislative environment that allows for some entities to have the financial statements reviewed rather than audited, in the case of a review, the public will have the same level of public reliance on the reviewer as</p>

¹ [IESBA Exposure Draft, Responding to Non-compliance with Laws and Regulations](#), paragraph 82, May 2015

	<p>would be on the auditor. The review would be regulated in the same manner as if that entity had elected to have an audit.</p> <p>We also note that Part 4A equates the independence requirements for an audit and a review. It seems inconsistent therefore to draw a distinction between audit and review in section 360 where no such distinction is made in Part 4A (from a clarity perspective the IESBA Code uses the term audit to mean audit and review in Part 4A, and therefore we consider that this inconsistency would result in confusion and misapplication in practice.)</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Some medium sized charities can elect for a review or an audit of the financial statements. We consider that aligning the requirements for an audit and review are consistent with this legislative requirement for some form of assurance over the financial statements.</p> <p>Where management or those charged with governance agree that non-compliance has or may occur, it is appropriate for the assurance practitioner in a review engagement to prompt them to take appropriate and timely action, after discussing the matter with them.</p>
2. The modification results in a standard that is clear and	The modification simplifies the standard, making the framework consistent for audit and review

<p>promotes consistent application by all practitioners.</p> <p><i>(For example, excluding options not relevant in NZ and Australia)</i></p>	<p>engagements. Part 4A equates the independence requirements for an audit and a review. From a clarity perspective the IESBA Code uses the term audit to mean audit and review in Part 4A, and therefore we consider that this inconsistency would result in confusion and misapplication in practice.</p>
<p>3. The modification will promote significant improvement in audit quality in New Zealand</p> <p><i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i></p>	<p>The modifications require the practitioner to prompt management to take appropriate actions rather than just discussing the matter with them. If management or those charged with governance take appropriate remedial action then that would be the desired outcome of applying the framework, and avoid the need for further action.</p>
<p>4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	<p>The benefits are expected to exceed the costs. The main differences between the audit and other assurance framework as proposed is that the following two steps only apply to an audit: a) If applicable, the auditor shall prompt management and those charged with governance to take appropriate action and b) The auditor shall comply with applicable laws and regulations, including requirements of reporting to an appropriate authority, and professional standards including the implications for the auditor's report. We consider that these are not onerous requirements for a review engagement as the appropriate authorities for audit/review engagements would be similar.</p>
<p>5. The modification does not conflict with or result in lesser requirements than the international standard.</p>	<p>IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.</p>
<p>6. The modification overall does not result in the standard being overly complex and confusing.</p>	<p>The modification will simplify the framework as it would apply to audit and review engagements in the same way (see B2).</p>
<p>7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.</p>	<p>The IESBA permits modification by national standard setters.</p> <p>We consider that aligning the requirements for an audit and review are consistent with the legislative requirement for some form of assurance over the financial statements.</p>
<p>Conclusion</p>	<p>Compelling reason test met.</p>

Modification 2a: Align requirements for other assurance engagements with those for audit engagements – Addressing the Matter

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>We propose to expand section 360, paragraphs R360.13 – 360.15 A1 that apply only to auditors performing audits of financial statements (and as per <i>modification 1</i> propose to amend to apply to review engagements) to apply also to all assurance engagements.</p> <p>These requirements are not addressed separately in the other assurance framework and require the assurance practitioner to:</p> <ul style="list-style-type: none"> a. Advise management and where applicable those charged with governance to take appropriate and timely action, if they have not done so already; b. Consider whether management and those charged with governance understand their legal and regulatory responsibilities with respect to non-compliance; and c. Comply with applicable laws and regulations and auditing and assurance standards <p>This would result in a simplification of the framework for assurance practitioners that perform both audit and review engagements and other assurance engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The NZAuASB has previously extended the independence requirements for audit and review engagements to other assurance engagements. Similarly, the NZAuASB considers that there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR. Accordingly, the frameworks for considering NOCLAR for audit and review and other assurance engagements have been combined previously by the Board.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of	n/a

which results in effective and efficient compliance with the legal framework in NZ.	
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that the same framework as audit and review engagements is equally appropriate for other assurance may no longer be conclusive.</p> <p>The principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance over other subject matters.</p> <p>In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing NOCLAR.</p>
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>The modification results in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.</p>
3. The modification will promote significant improvement in audit/assurance quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>The nature of other assurance engagements that assurance practitioners may perform is extremely diverse. These assurance practitioners may not have the same level of access to information, management and those charged with governance as auditors. Additionally, the engagements may be one-off limited scope engagements and their duration relatively short.</p> <p>It is also noted that assurance practitioners do not have the same level of responsibility to respond to identified or suspected non-compliance as do</p>

	<p>auditors, however, they are not precluded from considering the guidance applicable to audits (and as proposed, reviews.)</p> <p>The Subcommittee is of the view that an appropriate response when the assurance practitioner identifies actual or suspected non-compliance is for these matters to be brought to the attention of the entity's auditor (if the entity is audited) as required by paragraphs R360.31-R360.33.</p> <p>Adding the detailed requirements of the audit/review framework (identified at the top of this form under the heading <i>modification</i>) is unlikely to lead to a significant improvement in audit/assurance quality.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No detailed cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.
6. The modification overall does not result in the standard being overly complex and confusing.	<p>The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.</p> <p>However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.</p>
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.

Conclusion	Based on the above, the Subcommittee is of the view that the compelling reason test has not been met.
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Modification 2b: Align requirements for other assurance engagements with those for audit engagements – Further Action is Needed

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>We propose to expand section 360, paragraphs R360.19 – 360.21 A2 that apply only to auditors performing audits of financial statements (and as per <i>modification 1</i> propose to amend to apply to review engagements) to apply also to all assurance engagements.</p> <p>Paragraphs R360.36 – 360.36 A2 would be deleted.</p> <p>The other assurance framework requires the assurance practitioner to <i>consider</i> whether further action is needed in the public interest.</p> <p>Under the modification, the assurance practitioner would:</p> <ol style="list-style-type: none"> Assess the appropriateness of the response; Determine if further action is needed in the public interest; and Exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the assurance practitioner has acted appropriately in the public interest. <p>This would result in a simplification of the framework for assurance practitioners that perform both audit and review engagements and other assurance engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The NZAuASB has previously extended the independence requirements for audit and review engagements to other assurance engagements. Similarly, the NZAuASB considers that there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR. Accordingly, the frameworks for considering NOCLAR for audit and review and other assurance engagements have been combined by the Board.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>

The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that the same framework as audit and review engagements is equally appropriate for other assurance may no longer be conclusive.</p> <p>The principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance over other subject matters.</p> <p>In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing NOCLAR.</p>
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modification results in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	In order to determine/consider whether further action is needed in the public interest, the assurance practitioner would first need to assess the appropriateness of the action taken. The assurance practitioner is required by ISAE (NZ) 3000 to exercise professional judgement. In addition, the conceptual framework requires the assurance practitioner to exercise professional judgement, remain alert for

	<p>new information and use the reasonable and informed third-party test².</p> <p>The subcommittee is of the view that two frameworks achieve substantially the same result. Adding the more prescriptive requirements identified in the modification may not lead to a significant improvement in audit/assurance quality.</p> <p>Streamlining the requirements is identified as nice to have for assurance engagements over financial information rather than a compelling reason to change.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.
6. The modification overall does not result in the standard being overly complex and confusing.	<p>The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.</p> <p>However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.</p>
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.

² Paragraph R120.5

Conclusion	Based on the above, the Subcommittee is of the view that the compelling reason test has not been met.
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Modification 2c: Align requirements for other assurance engagements with those for audit engagements – Obtaining an Understanding of the Matter

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>We propose to expand section 360, paragraphs R360.10 – R360.12 that apply only to auditors performing audits of financial statements (and as per <i>modification 1</i> propose to amend to apply to review engagements) to apply also to all assurance engagements.</p> <p>Paragraphs R360.29 – 360.30 A2 would be deleted.</p> <p>The modification would require the assurance practitioner to:</p> <ol style="list-style-type: none"> obtain an understanding of information concerning non-compliance or suspected non-compliance (rather than <i>seek</i> to obtain); discuss the matter with management and, where appropriate, those charged with governance; and if the assurance practitioner believes that management is involved in the identified or suspected non-compliance, discuss the matter with those charged with governance. <p>Aligning the frameworks for audit/review (as proposed in modification 1) and other assurance would result in a simplification of the framework for assurance practitioners that perform both audit and review engagements and other assurance engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	<p>The NZAuASB has previously extended the independence requirements for audit and review engagements to other assurance engagements. Similarly, the NZAuASB considers that there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR. Accordingly, the frameworks for considering NOCLAR for audit and review and other assurance engagements have been combined by the Board.</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>

The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that the same framework as audit and review engagements is equally appropriate for other assurance may no longer be conclusive.</p> <p>The principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance over other subject matters.</p> <p>In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing NOCLAR.</p>
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>The modification results in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.</p>
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>The nature of other assurance engagements that assurance practitioners may perform is extremely diverse. These assurance practitioners may not have the same level of access to information, management and those charged with governance auditors. Additionally, the engagements may be one-off limited scope engagements and their duration relatively short.</p>

	<p>The requirement to <i>seek</i> to obtain an understanding and to communicate with those charged with governance, if the assurance practitioner has access to them, recognise and respond to this diversity. The difference in wording recognises the particular nature of the auditors' remit and the higher public expectations of them.</p> <p>In practice, the subcommittee is of the view that two frameworks achieve substantially the same result. Within the mandate of the NZAuASB, the assurance practitioner is likely to be able to obtain an understanding of the matter. The assurance practitioner in these circumstances is also likely to have access to those charged with governance and therefore, if appropriate, will be able to discuss the matter with those charged with governance.</p> <p>Where the assurance practitioner does not have access to those charged with governance, the other assurance framework establishes requirements to for the assurance practitioner to communicate/consider whether to communication with the firm/external auditor.</p> <p>Accordingly, the Subcommittee is of the view that the modification is unlikely to lead to significant increase in assurance quality. Rather, streamlining the requirements is identified as a nice to have rather than a compelling reason to change.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts. The modifications are IESBA plus.
6. The modification overall does not result in the standard being overly complex and confusing.	The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.

	However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.
Conclusion	Based on the above, the Subcommittee is of the view that the compelling reason test has not been met.

Modification 2d: Align requirements for other assurance engagements with those for audit engagements –Documentation

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>The IESBA Code requires certain matters to be documented for audit (and, as proposed per modification 1, review) engagements. Documentation for other assurance engagements is <i>encouraged</i>. The NZ proposal is to specify certain matters to be documented for other assurance engagements consistent with other assurance standards.</p> <p>Paragraph 360.40 A1 is deleted and replaced with the following wording:</p> <p>International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and International Standard on Review Engagements (New Zealand) (ISRE (NZ)) require an assurance practitioner performing an assurance engagement to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions; • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. <p>The modification has the effect of requiring rather than encouraging documentation in all assurance engagements, which would be required by the other assurance standard in any event.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The ISAEs (NZ) <i>require</i> rather than encourage documentation, therefore expanding the audit documentation requirement to all assurance engagements would be consistent with principles and practices required by those standards.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient	n/a

compliance with the legal framework in NZ.	
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB	The ISAEs (NZ) already require rather than encourage documentation, therefore expanding the audit documentation requirement to all assurance engagements would be consistent with principles and practices required by those standards.
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modifications would reduce inconsistencies between the Code of Ethics and the requirements of the other assurance standards.
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	The Subcommittee is of the view that the matters the assurance practitioner is "encouraged" to document would ordinarily be required to be documented in accordance with ISAE (NZ) 3000 (revised) and subject matter specific ISAEs (NZ) and SAEs (see the analysis of the comparison of audit/review provisions with those for other assurance engagements). As such, the Subcommittee does not agree that the compelling reason test has been met with respect to significant improvement in audit quality.
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed. The following explanation was provided in the compelling reason test when the Board initially considered the amendments to the IESBA NOCLAR provisions. The Subcommittee has no evidence on which to support this statement. The benefits are expected to exceed the costs. Documentation is required by the other assurance standards and should already be done therefore the cost of the requirement is expected to be minimal. The benefit of good documentation is expected to have benefits on the quality of the assurance

	engagement, to assist in the event that a reasonable person needs to review the file at a later stage and reflect on whether appropriate conclusions and actions were taken. Good documentation will protect the practitioner, and is therefore in their interest to do this.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.
6. The modification overall does not result in the standard being overly complex and confusing.	<p>The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.</p> <p>However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.</p>
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.
Conclusion	Compelling reason test not met. As noted above, the Subcommittee is of the view that the additional requirements are unlikely to achieve a significant increase in assurance quality.

Comparison of Restructured IESBA Code Provisions for responding to NOCLAR

This tables compares the provisions of the restructured International Code for responding to NOCLAR for audit and review engagements with the provisions for responding to NOCLAR for other assurance engagements. The text of extant PES 1 (Revised) has been included for reference.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS	RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS - AUDIT <i>(Amended for NZ changes in relation to review engagements)</i>	RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS – OTHER ASSURANCE	
New paragraph	360.1 Professional accountants <u>assurance practitioners</u> are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.	360.1 Professional accountants <u>assurance practitioners</u> are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.	Applicable to all engagements
New paragraph	360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an <u>assurance practitioner</u> professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.	360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an <u>assurance practitioner</u> professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>225.1 An assurance practitioner may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. The purpose of this section is to set out the assurance practitioner's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.</p> <p>225.5 This section sets out the approach to be taken by an assurance practitioner who encounters or is made aware of non-compliance or suspected non-compliance with:</p> <p>(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures</p>	<p>360.3 An assurance practitioner professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant <u>assurance practitioner</u> in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:</p> <p>(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the <u>underlying subject matter information (for example, the client's financial statements in an audit engagement)</u>; and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the <u>underlying subject matter information</u> client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's</p>	<p>360.3 An assurance practitioner professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant <u>assurance practitioner</u> in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:</p> <p>(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the <u>underlying subject matter information (for example, the client's financial statements in an audit engagement)</u>; and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the <u>underlying subject matter information</u> client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's</p>	<p>Applicable to all engagements</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>in the client's financial statements; and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.</p>	<p>business, to its ability to continue its business, or to avoid material penalties.</p>	<p>business, to its ability to continue its business, or to avoid material penalties.</p>	
	<p>Objectives of the Professional Accountant Assurance Practitioner in Relation to Non-compliance with Laws and Regulations</p>	<p>Objectives of the Professional Accountant Assurance Practitioner in Relation to Non-compliance with Laws and Regulations</p>	
<p>225.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:</p> <p>(a) To comply with the fundamental principles of integrity and professional behaviour;</p>	<p>360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant <u>assurance practitioner</u> are:</p>	<p>360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant <u>assurance practitioner</u> are:</p>	<p>Applicable to all engagements</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as appropriate in the public interest.</p>	<p>(a) To comply with the principles of integrity and professional behavior;</p> <p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as appropriate in the public interest.</p>	<p>(a) To comply with the principles of integrity and professional behavior;</p> <p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as appropriate in the public interest.</p>	
	<p>Requirements and Application Material</p> <p>General</p>	<p>Requirements and Application Material</p> <p>General</p>	
<p>225.2 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with</p>	<p>360.5 A1 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</p>	<p>360.5 A1 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</p>	<p>Applicable to all engagements</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
governance, by management or by other individuals working for or under the direction of a client 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.	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.	
<p>225.6 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. • Securities markets and trading. • Banking and other financial products and services. • Data protection. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	<p>360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. • Securities markets and trading. • Banking and other financial products and services. • Data protection. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	<p>360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. • Securities markets and trading. • Banking and other financial products and services. • Data protection. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.</p>	<p>360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.</p>	<p>360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.</p>	<p>Applicable to all engagements</p>
<p>225.3 In some cases, there are legal or regulatory provisions governing how assurance practitioners should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When</p>	<p>R360.6 In some <u>jurisdictionscases</u>, there are legal or regulatory provisions governing how <u>professional accountants assurance practitioners</u> should address non-compliance or suspected non-compliance. These legal or</p>	<p>R360.6 In some <u>jurisdictionscases</u>, there are legal or regulatory provisions governing how <u>professional accountants assurance practitioners</u> should address non-compliance or suspected non-compliance. These legal or</p>	<p>Applicable to all engagements</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
encountering such non-compliance or suspected non-compliance, the assurance practitioner has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and <i>any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.</i>	regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall obtain an understanding of those legal or regulatory provisions and comply with them, including: (a) Any requirement to report the matter to an appropriate authority; and (b) Any prohibition on alerting the client.	regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall obtain an understanding of those legal or regulatory provisions and comply with them, including: (a) Any requirement to report the matter to an appropriate authority; and (b) Any prohibition on alerting the client.	
225.3 ... <i>any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.</i>	360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.	360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.	Applicable to all engagements
225.1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.	360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.	360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.	Applicable to all engagements
225.8 An assurance practitioner who encounters or is made aware of matters that are clearly inconsequential, judged by their	360.7 A2 An <u>assurance practitioner</u> professional accountant who encounters or is made aware of matters that are clearly	360.7 A2 An <u>assurance practitioner</u> professional accountant who encounters or is made aware of matters that are clearly	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.	inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.	inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.	
<p>225.9 This section does not address:</p> <p>(a) Personal misconduct unrelated to the business activities of the client; and</p> <p>(b) Non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. This includes, for example, circumstances where an assurance practitioner has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.</p> <p>The assurance practitioner may nevertheless find the guidance in</p>	<p>360.7 A3 This section does not address:</p> <p>(a) Personal misconduct unrelated to the business activities of the client; and</p> <p>(b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an <u>assurance practitioner</u> professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.</p> <p>The accountant <u>assurance practitioner</u> might nevertheless find</p>	<p>360.7 A3 This section does not address:</p> <p>(a) Personal misconduct unrelated to the business activities of the client; and</p> <p>(b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an <u>assurance practitioner</u> professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.</p> <p>The accountant <u>assurance practitioner</u> might nevertheless find</p>	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
this section helpful in considering how to respond in these situations.	the guidance in this section helpful in considering how to respond in these situations.	the guidance in this section helpful in considering how to respond in these situations.	
Responsibilities of the Client's Management and Those Charged with Governance	Responsibilities of Management and Those Charged with Governance	Responsibilities of Management and Those Charged with Governance	
225.10 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.	360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by: (a) The client; (b) An individual charged with governance of the entity; (c) A member of management; or (d) Other individuals working for or under the direction of the client.	360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by: (a) The client; (b) An individual charged with governance of the entity; (c) A member of management; or (d) Other individuals working for or under the direction of the client.	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
Responsibilities of Assurance Practitioners[#]	Responsibilities of All Professional Accountants Assurance Practitioners	Responsibilities of All Professional Accountants Assurance Practitioners	
225.11 Where an assurance practitioner becomes aware of a matter to which this section applies, the steps that the assurance practitioner takes to comply with this section shall be taken on a timely basis, having regard to the assurance practitioner's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.	R360.9 Where an <u>assurance practitioner</u> professional accountant becomes aware of a matter to which this section applies, the steps that the <u>assurance practitioner</u> accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant <u>assurance practitioner</u> shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.	R360.9 Where an <u>assurance practitioner</u> professional accountant becomes aware of a matter to which this section applies, the steps that the <u>assurance practitioner</u> accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant <u>assurance practitioner</u> shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.	Applicable to all engagements

[#] Paragraphs 225.12 – 225.38 have been expanded in PES 1 (Revised) to apply to all assurance engagements in New Zealand. Paragraphs 225.39- 56 of the IESBA Code of Ethics that cover Professional Services Other than Audits of Financial Statements have therefore not been included.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<i>Obtaining an Understanding of the Matter</i>	Audits and Reviews of Financial Statements <i>Obtaining an Understanding of the Matter</i>	Professional Services Other than Audits of Financial Statements <i>Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance</i>	
225.12 If an assurance practitioner engaged to perform an assurance engagement becomes aware of information concerning an instance of non-compliance or suspected non-compliance, <i>whether in the course of performing the engagement or through information provided by other parties</i> , the assurance practitioner shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.	R360.10 If an <u>assurance practitioner</u> professional accountant engaged to perform an audit <u>or review</u> of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.	R360.29 If an <u>assurance practitioner</u> professional accountant engaged to provide an <u>assurance</u> professional service other than an audit <u>or review</u> of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.	Substantially the same requirement. If the assurance practitioner is unable to obtain an understanding of the matter, regardless of engagement type, the practitioner will need to consider the implications for the engagement and the assurance report. The difference in wording recognises the particular nature of auditors' remit and the higher public expectations of them ¹ .

¹ IESBA Exposure Draft, *Responding to Non-compliance with Laws and Regulations*, paragraph 41, May 2015

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
225.12 ... <i>whether in the course of performing the engagement or through information provided by other parties,</i>	360.10 A1 The professional accountant <u>assurance practitioner</u> might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.
225.13 The assurance practitioner is expected to apply knowledge, professional judgement and expertise, but is not expected to have a level of knowledge of laws and regulations that is greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. <i>Depending on the nature and significance of the matter, the assurance practitioner may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.</i>	360.10 A2 The professional accountant <u>assurance practitioner</u> is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant <u>assurance practitioner</u> is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.	360.29 A1 The professional accountant <u>assurance practitioner</u> is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant <u>assurance practitioner</u> is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional <u>assurance</u> service for which the accountant <u>assurance practitioner</u> was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.	Application material is the same for both audit/review and other assurance.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
225.13 ... <i>Depending on the nature and significance of the matter, the assurance practitioner may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.</i>	360.10 A3 Depending on the nature and significance of the matter, the professional accountant <u>assurance practitioner</u> might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.	360.29 A2 Depending on the nature and significance of the matter, the professional accountant <u>assurance practitioner</u> might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.	Application material is the same for both audit/review and other assurance.
225.14 If the assurance practitioner identifies or suspects that non-compliance has occurred or may occur, the assurance practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	R360.11 If the professional accountant <u>assurance practitioner</u> identifies or suspects that non-compliance has occurred or might occur, the accountant <u>assurance practitioner</u> shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	R360.30 If the <u>assurance practitioner</u> professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant <u>assurance practitioner</u> shall discuss the matter with the appropriate level of management. If the accountant assurance practitioner has access to those charged with governance, the accountant <u>assurance practitioner</u> shall also discuss the matter with them where appropriate.	Substantially the same requirement, although R360.30 recognises that in some circumstances the assurance practitioner may not have access to those charged with governance. This discussion enables assurance practitioners to clarify their understanding of the matter, including its potential consequences. In practice, it is expected that the situation will often be resolved through such discussion.
225.15 Such discussion serves to clarify the assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also	360.11 A1 The purpose of the discussion is to clarify the professional accountant's <u>assurance practitioner's</u> understanding of the facts and circumstances relevant to the	360.30 A1 The purpose of the discussion is to clarify the professional accountant's <u>assurance practitioner's</u> understanding of the facts and circumstances relevant to the matter and its potential	Application material is the same for both audit/review and other assurance.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
may prompt management or those charged with governance to investigate the matter.	matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.	consequences. The discussion also might prompt management or those charged with governance to investigate the matter.	
<p>225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the matter. • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	<p>360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the matter. • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	<p>360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the matter. • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	Application material is the same for both audit/review and other assurance.
225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. <i>If the</i>	360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p><i>assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the assurance practitioner shall discuss the matter with those charged with governance. The assurance practitioner may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.</i></p>	<p>context of a group, the appropriate level might be management at an entity that controls the client.</p>		<p>purposes of the compelling reason test.</p>
<p>225.17 ... <i>The assurance practitioner may also consider discussing the matter with internal auditors, where applicable.</i></p>	<p>360.11 A4 The professional accountant <u>assurance practitioner</u> might also consider discussing the matter with internal auditors, where applicable.</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.</p>
<p>225.17 <i>If the assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the assurance practitioner shall discuss the matter with those charged with governance.</i></p>	<p>R360.12 If the professional accountant <u>assurance practitioner</u> believes that management is involved in the non-compliance or suspected non-compliance, the professional accountant <u>assurance practitioner</u> shall discuss the matter with those charged with governance.</p>	<p>R360.30 If the accountant <u>assurance practitioner</u> has access to those charged with governance, the accountant <u>assurance practitioner</u> shall also discuss the matter with them where appropriate.</p>	<p>For other assurance engagements, this is implied by R360.30 (second sentence). It would always be appropriate to discuss non-compliance with those charged with governance when management is suspected of being involved.</p> <p>In addition, paragraphs R360.30-R360.33 require communication to</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
			the firm/external auditor who can then address the matter with those charged with governance, as appropriate.
<i>Addressing the Matter</i>	<i>Addressing the Matter</i>		
<p>225.18 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:</p> <ul style="list-style-type: none"> (a) Rectify, remediate or mitigate the consequences of the non-compliance; (b) Deter the commission of the non-compliance where it has not yet occurred; or (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. 	<p>R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant <u>assurance practitioner</u> shall advise them to take appropriate and timely actions, if they have not already done so, to:</p> <ul style="list-style-type: none"> (a) Rectify, remediate or mitigate the consequences of the non-compliance; (b) Deter the commission of the non-compliance where it has not yet occurred; or (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. 		<p>Requirement is to advise the client to take appropriate and timely actions if they have not already done so. This adds specificity to the requirement in R360.11 which requires the assurance practitioner to discuss the matter.</p> <p>The other assurance framework is less prescriptive, recognizing the need for flexibility and professional judgement.</p> <p>The Subcommittee view is that including such a requirement in the framework for other assurance engagements may be beyond the assurance practitioner's knowledge and authority.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>225.19 The assurance practitioner shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. <i>If not, the assurance practitioner may suggest appropriate sources of information or recommend that they obtain legal advice.</i></p>	<p>R360.14 The professional accountant <u>assurance practitioner</u> shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.</p>		<p>Requirement is for the assurance practitioner to consider whether management and those charged with governance understand their responsibilities with respect to NOCLAR. The Code does not specify actions when management and those charged with governance do not understand their legal or regulatory responsibilities with respect to NOCLAR.</p> <p>The Subcommittee view is that including such a requirement in the framework for other assurance engagements is unlikely to lead to a significant improvement in assurance quality and in some cases will be difficult to determine, therefore does not meet the compelling reason test.</p>
<p>225.19 ...<i>If not, the assurance practitioner may suggest appropriate sources of information or recommend that they obtain legal advice.</i></p>	<p>360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant <u>assurance practitioner</u> might suggest appropriate sources of information</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions.</p> <p>This may be outside the expertise of the assurance practitioner. A more appropriate response is to bring this to the auditor/reviewer's attention</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
	or recommend that they obtain legal advice.		through complying with the requirement in R360.31-35.
<p>225.20 The assurance practitioner shall comply with applicable:</p> <p>(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority. <i>In this regard, some laws and regulations may stipulate a period within which reports are to be made;</i> and</p> <p>(b) Requirements under auditing and assurance standards, including those relating to:</p> <ul style="list-style-type: none"> Identifying and responding to non-compliance, including fraud. Communicating with those charged with governance. Considering the implications of the non-compliance or 	<p>R360.15 The professional accountant <u>assurance practitioner</u> shall comply with applicable:</p> <p>(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and</p> <p>(b) Requirements under auditing and <u>assurance</u> standards, including those relating to:</p> <ul style="list-style-type: none"> Identifying and responding to non-compliance, including fraud. Communicating with those charged with governance. Considering the implications of the non-compliance or suspected non-compliance for the auditor's <u>assurance</u> report. 		<p>The assurance practitioner has an obligation to comply with laws and regulations and auditing and assurance standards regardless of whether or not such requirements are noted in the Code. This is noted in the compelling reason test for the extant changes: <i>Requiring compliance with laws and regulations and the auditing and assurance standards would already be required by the legislation and those standards, so whilst expanding that provision in itself may not have any impact on audit quality, it would simplify and streamline the Code.</i></p> <p>This change is identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
suspected non-compliance for the assurance report.			
225.20 ... <i>In this regard, some laws and regulations may stipulate a period within which reports are to be made;</i>	360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.		Application material. When this is the case, the assurance practitioner would be required by legislation to comply.
<i>Communication with Respect to Groups</i>	Communication with Respect to Groups	<i>Communicating the Matter to the Entity's External Auditor</i>	
<p>NZ225.21.1 An assurance practitioner may:</p> <p>(a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or</p> <p>(b) Be engaged to perform an audit or review of a component's financial statements for purposes other than the group audit, for example, a statutory audit.</p>	<p>R360.16 Where an <u>assurance practitioner</u> professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the <u>accountant-assurance practitioner</u> shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:</p> <p>(a) The <u>accountant-assurance practitioner</u> is, for purposes of an audit of the group financial statements, requested by the group engagement team to</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p> <p>R360.31 – R360.35 A1 detail the other assurance practitioner's communications with the external auditor.</p> <p>NB: NZ paragraph notation relates to the addition of "or review".</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>Where the assurance practitioner becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the assurance practitioner shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation.</p>	<p>perform work on financial information related to the component; or</p> <p>(b) The accountant-assurance practitioner is engaged to perform an audit <u>or review</u> of the component's financial statements for purposes other than the group audit, for example, a statutory audit.</p> <p>The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.</p>		
<p>NZ225.21.1 This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in accordance with the provisions in this section.</p>	<p>360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p> <p>R360.31 – R360.35 A1 detail the assurance practitioner's communications with the external auditor.</p> <p>NB: Paragraph does not require NZ notation under restructure.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
	from the professional accountant <u>assurance practitioner</u> 's firm or network.		
<p>NZ225.22.1 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components:</p> <p>(a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or</p> <p>(b) Whose financial statements are subject to audit or review for purposes other than the group audit, for example, a statutory audit.</p>	<p>R360.17 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:</p> <p>(a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or</p> <p>(b) Whose financial statements are subject to audit <u>or review</u> for purposes other than the group audit, for example, a statutory audit.</p> <p>This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p> <p>R360.31 – R360.35 A1 detail the assurance practitioner's communications with the external auditor/reviewer.</p> <p>NB: NZ paragraph notation relates to the addition of "or review".</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p><i>If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate enquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.</i></p>			
<p>NZ225.22.1 ...<i>If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the</i></p>	<p>R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p><i>matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate enquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor...</i></p>	<p>partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to <u>audit or review</u> and, if so, to ascertain to the extent practicable the identity of the auditor.</p>		<p>R360.31 – R360.35 A1 detail the assurance practitioner’s communications with the external auditor.</p> <p>NB: NZ paragraph notation relates to the addition of “or review”.</p>
<p>NZ225.22.1 ...<i>The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.</i></p>	<p>360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner’s firm or network is the same as or different from the firms</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p> <p>R360.31 – R360.35 A1 detail the assurance practitioner’s communications with the external auditor.</p> <p>Paragraph does not require NZ notation under restructure.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
	or networks of those performing work at the components.		
NZ225.17.1 If the assurance practitioner is performing a non-audit service for an audit client of the firm, or a component of an audit client the assurance practitioner shall communicate non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.		<p>R360.31 If the professional accountant<u>assurance practitioner</u> is performing a non-audit service for:</p> <p>(a) An audit client of the firm; or</p> <p>(b) A component of an audit client of the firm,</p> <p>the accountant<u>assurance practitioner</u> shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.</p>	<p>R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 are specific to audits of group financial statements.</p> <p>If the Board agrees with the Subcommittee recommendation to separate the audit/review and other assurance provisions, NZ225.17.1 – NZ225.17.5 would no longer require to be marked as NZ paragraphs.</p>
NZ225.17.2 If the assurance practitioner is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-		<p>R360.32 If the professional accountant<u>assurance practitioner</u> is performing a non-audit service for:</p> <p>(a) An audit client of a network firm; or</p>	<p>R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.</p>		<p>(b) A component of an audit client of a network firm, the <u>assurance practitioner</u>accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.</p>	
<p>NZ225.17.3 If the assurance practitioner is performing a non-audit service for a client that is not:</p> <p>(a) An audit client of the firm or a network firm; or</p> <p>(b) A component of an audit client of the firm or network firm,</p> <p>the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.</p>		<p>R360.33 If the <u>assurance practitioner</u>professional accountant is performing a non-audit service for a client that is not:</p> <p>(a) An audit client of the firm or a network firm; or</p> <p>(b) A component of an audit client of the firm or a network firm,</p> <p>the <u>assurance practitioner</u>accountant shall consider whether to communicate the non-compliance or suspected</p>	<p>R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
		non-compliance to the firm that is the client's external auditor, if any.	
		Relevant Factors to Consider	
<p>NZ225.17.4 Factors relevant to considering the communication in accordance with paragraphs NZ225.17.2 and NZ225.17.3 include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. • Whether management or those charged with governance have already informed the entity's external auditor about the matter. 		<p>360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. • Whether management or those charged with governance have already informed the entity's external auditor about the matter. 	<p>R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<ul style="list-style-type: none"> The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements. 		<ul style="list-style-type: none"> The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements. 	
		Purpose of Communication	
NZ225.17.5 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.		360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.	R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.
<i>Determining Whether Further Action is Needed</i>	<i>Determining Whether Further Action Is Needed</i>	<i>Considering Whether Further Action Is Needed</i>	
225.23 The assurance practitioner shall assess the appropriateness of the response of management and,	R360.19 The professional accountant <u>assurance practitioner</u> shall assess the appropriateness of the response of management and,		This is a necessary action to achieve the requirement of R360.36 which is to consider whether further action is needed in the public interest. As

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
where applicable, those charged with governance.	where applicable, those charged with governance.		implicit in R360.36 this is identified as “nice to have” for purposes of the compelling reason test.
<p>225.24 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:</p> <ul style="list-style-type: none"> • The response is timely. • The non-compliance or suspected non-compliance has been adequately investigated. • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance. • Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred. • Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for 	<p>360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:</p> <ul style="list-style-type: none"> • The response is timely. • The non-compliance or suspected non-compliance has been adequately investigated. • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance. • Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred. • Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for 		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>example, additional controls or training.</p> <ul style="list-style-type: none"> The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. 	<p>example, additional controls or training.</p> <ul style="list-style-type: none"> The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. 		
<p>225.25 In light of the response of management and, where applicable, those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.</p>	<p>R360.20 In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.</p>	<p>R360.36 The professional accountant assurance practitioner shall also consider whether further action is needed in the public interest.</p>	<p>Such action cannot be determined without (as per R360.19) first assessing the appropriateness of the action taken. The Subcommittee is of the view that an assessment of the appropriateness of the response of management or those charged with governance must be performed in order to determine/consider whether further action is needed.</p>
<p>225.26 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:</p> <ul style="list-style-type: none"> The legal and regulatory framework. 	<p>360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:</p> <ul style="list-style-type: none"> The legal and regulatory framework. 	<p>360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:</p> <ul style="list-style-type: none"> The legal and regulatory framework. 	<p>Similar guidance.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<ul style="list-style-type: none"> • The urgency of the matter. • The pervasiveness of the matter throughout the client. • Whether the assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance. • Whether the non-compliance or suspected non-compliance is likely to recur. • Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public. 	<ul style="list-style-type: none"> • The urgency of the situation. • The pervasiveness of the matter throughout the client. • Whether the professional accountant <u>assurance practitioner</u> continues to have confidence in the integrity of management and, where applicable, those charged with governance. • Whether the non-compliance or suspected non-compliance is likely to recur. • Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public. 	<ul style="list-style-type: none"> • The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. • The urgency of the situation. • The involvement of management or those charged with governance in the matter. • The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public. 	
<p>225.27 Examples of circumstances that may cause the assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:</p>	<p>360.20 A2 Examples of circumstances that might cause the professional accountant <u>assurance practitioner</u> no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<ul style="list-style-type: none"> The assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance. The assurance practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period. 	<ul style="list-style-type: none"> The accountant-assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance. The accountant-assurance practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period. 		
<p>225.28 In determining the need for, and nature and extent of, further action, the assurance practitioner shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the assurance practitioner at the time, would be likely to conclude that the assurance practitioner has acted appropriately in the public interest.</p>	<p>R360.21 The professional accountant-assurance practitioner shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant-assurance practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant-assurance practitioner has acted appropriately in the public interest.</p>		<p>The assurance practitioner exercises professional judgement throughout the engagement. ISAE (NZ) requires the assurance practitioner to exercise professional judgement in planning and performing an assurance engagement, including determining the nature, timing and extent of the procedures (paragraph 38).</p> <p>The conceptual framework requires the assurance practitioner to exercise professional judgement,</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
			<p>remain alert for new information and to changes in facts and circumstances and to use the reasonable and informed third-party test (R120.5).</p> <p>R360.36 requires the assurance practitioner to consider whether further action is needed in the public interest.</p> <p>Accordingly, this requirement is identified as “nice to have” for purposes of the compelling reason test.</p>
<p>225.29 Further action by the assurance practitioner may include:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>360.21 A1 Further action that the professional accountant <u>assurance practitioner</u> might take includes:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>360.36 A2 Further action by the <u>assurance practitioner</u> professional accountant might include:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>Application material is the same for both audit/review and other assurance.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>225.30 Where the assurance practitioner determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the assurance practitioner's objectives under this section. In some cases, however, there may be limitations as to the further actions available to the assurance practitioner and withdrawal may be the only available course of action.</p>	<p>360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the <u>professional accountant's assurance practitioner's</u> objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the <u>accountant assurance practitioner</u>. In such circumstances, withdrawal might be the only available course of action.</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Withdrawal is always an option for the practitioner. Accordingly, this is implicit and "nice to have" for purposes of the compelling reason test.</p>
<p>225.31 Where the assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the assurance practitioner shall, on request by the proposed successor assurance practitioner, provide all such facts and other information concerning the identified or suspected non-compliance <i>that, in the predecessor assurance practitioner's opinion, the proposed successor assurance practitioner needs to be aware of before deciding whether to accept the audit</i></p>	<p>R360.22 Where the <u>professional accountant assurance practitioner</u> has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the <u>accountant assurance practitioner</u> shall, on request by the proposed <u>accountant assurance practitioner</u> pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed <u>accountant assurance practitioner</u>. The predecessor <u>accountant</u></p>	<p>R320.8 In the case of an audit or review of financial statements, an assurance practitioner shall request the existing or predecessor assurance practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with</p>	<p>Section 320 of the restructured Code addresses communicating with the existing or predecessor assurance practitioner for all assurance engagements. Refer 320.8</p> <p>Identified as "nice to have" for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p><i>appointment. The predecessor assurance practitioner shall do so despite paragraph 210.14, unless prohibited by law or regulation. If the proposed successor assurance practitioner is unable to communicate with the predecessor assurance practitioner, the proposed successor assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through enquiries of third parties or background investigations of management or those charged with governance.</i></p>	<p><u>assurance practitioner</u> shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the predecessor accountant <u>assurance practitioner</u> permission to discuss the client's affairs with the proposed accountant <u>assurance practitioner</u>, unless prohibited by law or regulation.</p>	<p>laws and regulations set out in paragraphs R360.21 and R360.22:</p> <p>(a) If the client consents to the existing or predecessor assurance practitioner disclosing any such facts or other information, the existing or predecessor assurance practitioner shall provide the information honestly and unambiguously; and</p> <p>(b) If the client fails or refuses to grant the existing or predecessor assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, the existing or predecessor assurance practitioner shall disclose this fact to the proposed assurance practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.</p>	
<p>225.31 ...that, in the predecessor assurance practitioner's opinion, the proposed successor assurance</p>	<p>360.22 A1 The facts and other information to be provided are those that, in the predecessor</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<i>practitioner needs to be aware of before deciding whether to accept the audit appointment...</i>	accountant's assurance practitioner's opinion, the proposed accountant-assurance practitioner needs to be aware of before deciding whether to accept the audit or review appointment. Section 320 addresses communications from proposed accountants assurance practitioners.		Identified as "nice to have" for purposes of the compelling reason test.
225.31 ... <i>If the proposed successor assurance practitioner is unable to communicate with the predecessor assurance practitioner, the proposed successor assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means...</i>	R360.23 If the proposed accountant-assurance practitioner is unable to communicate with the predecessor accountant-assurance practitioner , the proposed accountant-assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.	R320.6 If unable to communicate with the existing or predecessor assurance practitioner, the proposed assurance practitioner shall take other reasonable steps to obtain information about any possible threats.	Repetition of material in section 320. See R320.6
225.31 ... <i>such as through enquiries of third parties or background investigations of management or those charged with governance.</i>	360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.		No equivalent application material included under IESBA other assurance engagement provisions. Identified as "nice to have" for purposes of the compelling reason test.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>225.32 As consideration of the matter may involve complex analysis and judgements, the assurance practitioner may consider consulting internally, obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.</p>	<p>360.24 A1 As assessment of the matter might involve complex analysis and judgments, the <u>professional accountant assurance practitioner</u> might consider:</p> <ul style="list-style-type: none"> • Consulting internally. • Obtaining legal advice to understand the <u>accountant's assurance practitioner's</u> options and the professional or legal implications of taking any particular course of action. • Consulting on a confidential basis with a regulatory or professional body. 	<p>360.39 A1 The <u>professional accountant assurance practitioner</u> might consider:</p> <ul style="list-style-type: none"> • Consulting internally. • Obtaining legal advice to understand the professional or legal implications of taking any particular course of action. • Consulting on a confidential basis with a regulatory or professional body. 	<p>Similar guidance</p>
<p>Determining Whether to Disclose the Matter to an Appropriate Authority</p>	<p>Determining Whether to Disclose the Matter to an Appropriate Authority</p>		
<p>225.33 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the</p>	<p>360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as "nice to have" for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
matter to be investigated and action to be taken in the public interest.	matter to be investigated and action to be taken in the public interest.		
<p>225.34 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the assurance practitioner may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:</p> <ul style="list-style-type: none"> • The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts). • The entity is regulated and the matter is of such significance as to threaten its license to operate. • The entity is listed on a securities exchange and the 	<p>360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the <u>professional accountant assurance practitioner</u> might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:</p> <ul style="list-style-type: none"> • The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts). • The entity is regulated and the matter is of such significance as to threaten its license to operate. 		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>matter could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.</p> <ul style="list-style-type: none"> • Products that are harmful to public health or safety would likely be sold by the entity. • The entity is promoting a scheme to its clients to assist them in evading taxes. 	<ul style="list-style-type: none"> • The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets. • It is likely that the entity would sell products that are harmful to public health or safety. • The entity is promoting a scheme to its clients to assist them in evading taxes. 		
<p>225.34 The determination of whether to make such a disclosure will also depend on external factors such as:</p> <ul style="list-style-type: none"> • Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection 	<p>360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:</p> <ul style="list-style-type: none"> • Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting 	<p>360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate 	<p>Similar guidance</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>agency in the case of a breach of environmental laws and regulations.</p> <ul style="list-style-type: none"> Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation. Whether there are actual or potential threats to the physical safety of the assurance practitioner or other individuals. Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an on-going investigation into the non-compliance or suspected non-compliance. Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. 	<p>or an environmental protection agency in the case of a breach of environmental laws and regulations.</p> <ul style="list-style-type: none"> Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation. Whether there are actual or potential threats to the physical safety of the professional accountant<u>assurance practitioner</u> or other individuals. 	<p>potential non-compliance within the entity to enable it to take appropriate action.</p>	

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>225.35 If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.</p>	<p>R360.26 If the professional accountant <u>assurance practitioner</u> determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant <u>assurance practitioner</u> shall act in good faith and exercise caution when making statements and assertions. The accountant <u>assurance practitioner</u> shall also consider whether it is appropriate to inform the client of the accountant's <u>assurance practitioner's</u> intentions before disclosing the matter.</p>	<p>R360.37 If the professional accountant <u>assurance practitioner</u> determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant <u>assurance practitioner</u> shall act in good faith and exercise caution when making statements and assertions. The accountant <u>assurance practitioner</u> shall also consider whether it is appropriate to inform the client of the accountant's <u>assurance practitioner's</u> intentions before disclosing the matter.</p>	<p>Same requirement</p>
	<i>Imminent Breach</i>	<i>Imminent Breach</i>	
<p>225.36 In exceptional circumstances, the assurance practitioner may become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an</p>	<p>R360.27 In exceptional circumstances, the professional accountant <u>assurance practitioner</u> might become aware of actual or intended conduct that the accountant <u>assurance practitioner</u></p>	<p>R360.38 In exceptional circumstances, the professional accountant <u>assurance practitioner</u> might become aware of actual or intended conduct that the accountant <u>assurance practitioner</u></p>	<p>Similar requirement</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the assurance practitioner shall exercise professional judgement and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.	has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant -assurance practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.	has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant -assurance practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.	
<i>Documentation</i>	<i>Documentation</i>	<i>Documentation</i>	
225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the assurance practitioner shall, in addition to complying with	R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the	360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant -assurance	For other assurance engagements, ISAE (NZ) 3000 (Revised) and subject matter specific ISAEs (NZ) and SAEs

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
<p>the documentation requirements under applicable auditing or assurance standards, document:</p> <ul style="list-style-type: none"> How management and, where applicable, those charged with governance have responded to the matter. The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken, having regard to the reasonable and informed third party perspective. How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph 225.25. 	<p>professional accountant <u>assurance practitioner</u> shall document:</p> <ul style="list-style-type: none"> How management and, where applicable, those charged with governance have responded to the matter. The courses of action the accountant <u>assurance practitioner</u> considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test. How the accountant <u>assurance practitioner</u> is satisfied that the accountant <u>assurance practitioner</u> has fulfilled the responsibility set out in paragraph R360.20. 	<p><u>practitioner</u> is encouraged to document:</p> <ul style="list-style-type: none"> The matter. The results of discussion with management and, where applicable, those charged with governance and other parties. How management and, where applicable, those charged with governance have responded to the matter. The courses of action the accountant <u>assurance practitioner</u> considered, the judgments made and the decisions that were taken. How the accountant <u>assurance practitioner</u> is satisfied that the accountant <u>assurance practitioner</u> has fulfilled the responsibility set out in paragraph R360.36. 	<p>establish the documentation requirements.²</p> <p>360.40 A1 guides the assurance practitioner in determining the matters to document, supporting the requirement in ISAE (NZ) 3000 (Revised), but in not prescribing specific matters to be documented recognises the differing nature of other assurance engagements.</p> <p>The IESBA has taken a proportionate approach to documentation. The encouragement for the assurance practitioner to document recognises that practitioners performing other assurance engagements are not subject to the same extent of regulatory oversight as auditors.³</p> <p>The Subcommittee is of the view that the matters identified would ordinarily be documented in accordance with ISAE (NZ) 3000 (Revised). Accordingly, the</p>

² ISAE (NZ) 3000 (Revised), paragraph 79, The assurance practitioner shall prepare on a timely basis documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experience practitioner, having no previous connection with the engagement to understand,...(c) the significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. (paragraph 79).

³ IESBA Basis for Conclusions, *Responding to Non-Compliance with Laws and Regulations*, paragraph 133

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
			Subcommittee is of the view that the compelling reason test has not been met.
<p>225.38 International Standards on Auditing (New Zealand) (ISAs (NZ)), for example, require an assurance practitioner performing an audit of financial statements to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions; • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and • Document identified or suspected non-compliance, and the results of discussion with management and, where 	<p>360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing <u>and assurance</u> standards. ISAs, for example, require a <u>professional accountant</u> <u>assurance practitioner</u> performing an audit of financial statements to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions; • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and 		<p>For other assurance engagements, ISAE (NZ) 3000 (revised) and subject matter specific ISAEs (NZ) and SAEs establish the documentation requirements.</p> <p>360.28 A1 uses ISAs as an example.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
applicable, those charged with governance and other parties outside the entity.	<ul style="list-style-type: none"> Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. 		
<p>NZ225.38.1 International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and International Standard on Review Engagements (New Zealand) (ISRE (NZ)) require an assurance practitioner performing an assurance engagement to:</p> <ul style="list-style-type: none"> Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions; Document discussions of significant matters with management, those charged with governance, and others, 			<p>For other assurance engagements, ISAE (NZ) 3000 (revised) and subject matter specific ISAEs (NZ) and SAEs establish the documentation requirements.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360	Restructured IESBA Code Section 360	COMMENTS
including the nature of the significant matters discussed and when and with whom the discussions took place.			

Compelling Reason Test:

Compelling reason tests are included in this paper for the following modifications:

#	Modification	Additional materials
1	PIE requirements included in section 290 extended to section 291 (including long association)	Comparison of PIE requirements (refer attachment 6)
2.	Temporary staff assignments	N/A
3.	Multiple threats to independence	N/A

Modification 1: PIE Requirements included in section 290 extended to section 291 (including long association).

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)

Modification

PES 1 (Revised) extends the more restrictive PIE requirements included in section 290 to section 291 relating to independence in other assurance engagements.

The following paragraphs are added:

NZ291.3.1-NZ 291.3.2 scoping paragraphs

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

Any entity that 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 A1¹.

NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:

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

NZ291.27.1 certain exceptions permitted when restricting use and distribution

NZ291.27.1 When the conditions set out in paragraphs 291.21 and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to assurance engagements for public interest entities.

Paragraphs NZ291.3.1-NZ291.3.2 and NZ291.27.1 are necessary only to the extent that any of the following NZ PIE paragraphs are retained.

NZ291.147.1 prohibition on valuation services

¹ XRB A1 Application of the Accounting Standards Framework.

NZ291.147.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.

NZ291.147.2 prohibition on certain IT services

NZ291.147.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.

NZ291.147.3 prohibition on certain recruiting services

NZ291.147.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

NZ291.149.1 relative fees

NZ291.149.1 Where an assurance client is a public interest entity and for two consecutive years the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level and apply the selected safeguard:

- Prior to the issuance of the second year's opinion another assurance practitioner who is not a member of the firm expressing the conclusion performs an engagement quality control review of that engagement ("a pre-issuance review"); or
- After the second year's opinion has been issued and before the issuance of the conclusion on the third year's opinion another assurance practitioner who is not a member of the firm performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review").

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

Thereafter when the fees continue to exceed 15% each year the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

NZ291.141.1-NZ291.141.15 (approved by the Board, February 2018)

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

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

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs NZ291.141.3 – NZ291.141.10.

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

NZ291.141.3 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

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

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

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

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

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

- (a) Five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Three consecutive years in the case of any other combination.

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

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

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

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

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

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

NZ291.141.13 Despite paragraphs NZ291.141.1-NZ291.141.9, key assurance partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain in that role on the assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

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

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

Rationale for the modification

The international standard is not consistent with NZ regulatory arrangements.

n/a

OR

The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ

The NZAuASB is of the view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter. The NZAuASB is of the view that these prohibitions are appropriate for other assurance clients, if they are public interest entities and that prohibiting such services in these circumstances is appropriate to maintaining independence, given the high level of interest in a public interest entity.

A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter may no longer be conclusive.</p> <p>The threats to independence in other assurance engagements, will vary depending on not only the subject matter but, for example, the purpose of the assurance; what is important to the users. Accordingly, the principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance engagements.</p> <p>If a firm performs both an audit or review engagement and an assurance engagement for the same client, the requirements in Part 4A (previously section 290) continue to apply².</p>
2. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>Applying the same requirements across all assurance services is clear and promotes consistent application across all services. For those firms that perform only other assurance engagements</p> <p>However, establishing rules may distract the assurance practitioner from complying with the principles of the standard. In this regard the Subcommittee prefers the principles based approach of the conceptual framework that applies to all types of assurance engagement.</p>

² Restructured International Code, paragraph 900.13

<p>3. The proposed modification will promote significant improvement in audit quality in New Zealand</p> <p><i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i></p>	<p>The mandate of the NZAuASB is to set auditing, assurance and ethical standards for assurance practitioners undertaking statutory assurance engagements. ISAE (NZ) 3000 (Revised) applies to assurance engagements other than audits or reviews of historical financial information and includes assurance over non-financial information</p> <p>In revising the IESBA Code and establishing the PIE requirements, the IESBA was responding to specific failings in the audit market. There is no evidence to support that there were the same failings in the other assurance market.</p> <p>The IESBA also noted that the requirements for other assurance engagements are not as specific because of the wide range of possible subject matters and subject matter information.</p> <p>The specific prohibitions identified are applicable to financial statement audits. There is no evidence to support that these same prohibitions are important to other types of assurance engagement, for example, assurance over a greenhouse gas statement which could be provided for a range of reasons not associated with financial statements, e.g., a marketing claim or as a basis for an internal management process, e.g., a business case.</p> <p>To understand what is important and what will affect independence in other assurance engagements, we first have to understand the purpose of the other assurance engagement. Therefore, the Subcommittee is of the view that for purposes of Part 4B the identified prohibitions do not necessarily promote significant improvement in audit quality. Rather, in accordance with the conceptual framework, the assurance practitioner needs to identify, evaluate and address threats to independence.</p> <p>Reference is often made to the stricter requirements of section 290. The Subcommittee notes that under both section 290 and 291, the assurance practitioner is required to be independent. Under both sections 290 and 291, the assurance practitioner applies the threats and safeguards approach in considering their independence. The stricter requirements refer to the prohibitions (including rotation requirements) that address the threats to independence (self-review, familiarity) and, in particular, the appearance of a lack of independence. With regard to other assurance engagements, these same threats are addressed by the conceptual framework – identifying, evaluating and addressing threats.</p> <p>The Subcommittee is concerned that the prohibitions do not reflect the matters that are necessarily of importance to the assurance practitioner and users of the assurance</p>
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	report in the other assurance space, and therefore has concluded that the compelling reason test has not been met with regard to promoting significant improvement in assurance quality.
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed, however, the additional requirements in relation to prohibitions are not expected to significantly increase costs. There could be significant additional costs to both client and assurance practitioner in applying the long association provisions. The assurance practitioner is required to be independent and to apply the conceptual framework to identify, evaluate and address the threats to independence.
5. The modification does not conflict with or result in lesser requirements than the international standard.	The prohibitions are consistent with section 290 of the standard.
6. The modification overall does not result in the standard being overly complex and confusing.	The modification does not result in the standard being overly complex and confusing. The assurance practitioner is required to comply with the conceptual framework to identify, evaluate and address threats to the independence. Rather the Subcommittee is concerned that the modifications may not be relevant to the subject matter and consequently believes that the threats and safeguards approach is more appropriate.
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modifications place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code. The specific prohibitions may not be the matters that are of most importance in the specific assurance engagement and may distract the assurance practitioner from consideration of more relevant matters.
Conclusion	For the reasons noted above, the Subcommittee is of the view that the compelling reason test has not been met.

Modification 2: Temporary Staff Assignments

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>Lending staff may create a self-review threat if that staff member is later involved in providing assurance over that subject matter or that subject matter information. This guidance emphasizes that a self-review threat may arise, regardless of whether the subject matter of the engagement is financial statements or not. It is not intended to be a prohibition and will not apply where the role is not related to the subject matter of the assurance engagement.</p> <p>The following paragraph included in extant PES 1 (Revised) will be included in the restructured Code.</p> <p>NZ291.129.1 The lending of staff by a firm to an assurance client may create a self-review threat. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client. Such assistance may be given, but the firm's personnel shall not be involved in:</p> <ul style="list-style-type: none"> • Providing non-assurance services that would not be permitted under this section; or • Assuming management responsibilities in a position which would give the loaned staff significant influence over the subject matter on which the firm will express an opinion. <p>In all circumstances, the assurance client shall be responsible for directing and supervising the activities of the loaned staff.</p> <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Conducting an additional review of the work performed by the loaned staff; • Not giving the loaned staff responsibility for any function or activity that the staff performed during the temporary staff assignment; or • Not including the loaned staff as a member of the assurance team. 	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	This guidance, which is expanded guidance on the threats and safeguards approach, is as relevant to other assurance engagements as it is to audits and reviews and therefore the addition promotes audit quality. The threats to independence do not differ when the subject matter of the engagements are financial statements or another subject matter.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	

<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>The view of the Board previously was that the additional guidance is equally applicable to other assurance engagements as it is to audits and reviews.</p> <p>The threats to independence in other assurance engagements, will vary depending on not only the subject matter but, for example, the purpose of the assurance; what is important to the users. Accordingly, the principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance engagements.</p> <p>The Subcommittee is of the view that application of the conceptual framework to identify, evaluated and address threats is appropriate and principles based.</p>
2. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modification provides additional guidance and promotes consistency.
3. The proposed modification will promote significant improvement in audit/assurance quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>This guidance emphasizes that a self-review threat may arise, regardless of whether the subject matter of the engagement is financial statements or not.</p> <p>It is not intended to be a prohibition and will not apply where the role is not related to the subject matter of the assurance engagement. Under the conceptual framework, when a threat to the fundamental principles is identified, the assurance practitioner is required to evaluate the threat and address the threat either by eliminating it or</p>

	<p>reducing it to an acceptable level. Accordingly, including this requirement in the Code will have little effect on audit/assurance quality as it is intended as guidance and is consistent with the conceptual framework.</p> <p>Further, adding detail that may obfuscate what is important in the context of the engagement may detract from rather than add to audit/assurance quality.</p> <p>Accordingly, the Subcommittee is of the view that the modification does not promote significant improvement in audit quality.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	No
6. The proposed modification overall does not result in the standard being overly complex and confusing.	Adding guidance that may not be relevant may distract the assurance practitioner from focussing on matters that are more relevant to the engagement.
7. The proposed modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification places more onerous requirements on the practitioner in New Zealand than is necessary to meet the intent of the International Code. The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address threats will achieve the same result.
Conclusion	Compelling reason test not met. Under the conceptual framework, there is unlikely to be any significant difference in the identification, evaluation or addressing of threats.

Modification 3: Multiple threats to independence

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>The following two paragraphs are added to the Code to clarify the need for the assurance practitioner to evaluate multiple threats to independence, which individually may not be significant, in aggregate.</p> <p>NZ290.11.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.</p> <p>NZ291.10.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.</p> <p>This change is proposed in line with the NZAuASB's harmonisation policy with the Australian Code.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	<p>The discussion on the conceptual framework at the start of section 290 has been relocated in the restructured International Code to Section 120 on the overall conceptual framework elements. The restructured section includes a reference to multiple threats³ but it is not as detailed as in the extant NZ paragraphs and is in a different section to the Independence Standards. Therefore, we propose to include the extant NZ paragraphs also in Part 4A and Part 4B (previously sections 290 and 291).</p> <p>This paragraph is based on a similar addition proposed in the Australian Code</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient	n/a

³ Paragraph 120.8 A1 of the International Code states, "The consideration of qualitative as well as quantitative factors is relevant in the assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable."

compliance with the legal framework in NZ.	
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	The modification clarifies the intent of the International Code.
2. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The restructured International Code, paragraph 120.8 A1 clarifies that the combined effect of multiple threats is relevant. However, this discussion is included in the conceptual framework and not the independence standards, Part 4A and Part 4B (previously sections 290 and 291), and is less detailed than the extant NZ paragraph.
3. The proposed modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	The restructured International Code, paragraph 120.8 A1 clarifies that the combined effect of multiple threats is relevant. However, its placement in the conceptual framework is geographically disjointed from its application which is in the independence standards, Part 4A and Part 4B (previously sections 290 and 291).
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit. Clarification of the intent of the Code.
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	No. Clarification of the intent of the Code.
6. The proposed modification overall does not result in the	No. Adds clarity to the Code.

standard being overly complex and confusing.	
7. The proposed modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	No. Modification is consistent with the NZAuASB harmonisation policy with the Australian Code.
Conclusion	Compelling reason test met. The intent of the Code is enhanced by the additional paragraphs.

Assessment of the NZ PIE requirements in extant PES 1 (Revised), section 291

1. The following analysis looks at each of the PIE compelling reason changes made to extant PES 1 (Revised). The table below provides the initial assessment for the NZ specific paragraph and the Subcommittee's reassessment.
2. The Subcommittee notes that the IESBA separated the independence provisions for audit and review engagements and other assurance engagements in its revised Code issued in July 2009, in response to the loss in credibility in aspects of the financial reporting framework as a result of several high profile corporate failures. At the same time, the IESBA extended the application of certain independence provisions that previously applied only to the audits of listed entities to apply more broadly to audit or review engagements of public interest entities.
3. For purposes of this analysis:
 - section 290 of PES 1 (Revised) = Part 4A of the restructured IESBA Code
 - section 291 of PES 1 (Revised) = Part 4B of the restructured IESBA Code.
4. The Subcommittee has analysed these key differences to determine whether the compelling reasons to amend section 291 of extant PES 1 (Revised) to include the additional PIE requirements continues to be met.
5. Examples of engagements that are covered by Part 4B (previously section 291) include:
 - Audit of specific elements, accounts or items of a financial statement
 - Any direct reporting engagement: audit of effectiveness of internal controls, audit of controls at a service organisation
 - Sustainability reports and EER
 - Assurance over environmental performance for example, Greenhouse gas statements, GHG emissions, assurance on an emission calculation or emission profile, environmental performance of a product

For an assurance engagement where the subject matter is any type of financial information included in an offer document, the independence requirements of Part 4A (previously section 290) apply. Similarly, the assurance practitioner will need to consider the provisions of Part 4A if a non-audit assurance engagement is performed for an audit or review client.

Overview and assessment of NZ PIE requirements in extant PES 1 (Revised) for other assurance engagements

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
Public interest entity requirements	<p>NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:</p> <ul style="list-style-type: none"> Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1¹. 		<p>This paragraph has been added to section 291 as the NZAuASB has replicated certain of the public interest entity requirements in section 291 as outlined below.</p> <p>Whether this paragraph is retained will depend on the Board's decision whether the compelling reason test has been met and therefore whether to retain the additional PIE requirements in Part 4B.</p> <p>Wording to be updated to reflect the revised definition of PIE, if retained.</p>
	<p>NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:</p> <ul style="list-style-type: none"> The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds; Size; and Number of employees 		<p>This paragraph has been added to section 291 as the NZAuASB has replicated certain of the public interest entity requirements in section 291 as outlined below.</p> <p>Whether this paragraph is retained will depend on the Board's decision whether the compelling reason test has been met and therefore whether to retain the additional PIE requirements in Part 4B.</p>
	NZ291.27.1 When the conditions set out in paragraphs 291.21		This exception has been added to

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

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to assurance engagements for public interest entities.		<p>section 291 as the NZAuASB has replicated certain of the public interest entity requirements in section 291 as outlined below.</p> <p>Whether this paragraph is retained will depend on the Board's decision whether the compelling reason test has been met and therefore whether to retain the additional PIE requirements in Part 4B.</p>
Valuation services	NZ291.147.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.	<p>Staff have proposed to extend these requirements to all entities in s290. The self-review threat would be the same for all assurance engagements and staff believe that this gap should be addressed in s291.</p> <p>Staff do not see onerous costs involved by adding this prohibition to s291.</p> <p>Recommendation: Add to s291.</p>	<p>[IESBA restructured Code R603.5]</p> <p>This prohibition may be more likely to be applicable in a financial statement audit/review and therefore is appropriate to include in section 290. Inclusion of this specific prohibition in section 291 (new Part 4B) does not reflect the wide range of possible subject matters and subject matter information likely in an other assurance engagement.</p> <p>The market for other assurance is still developing. As the market matures it may become appropriate for more detailed guidance to be established.</p> <p>The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address the threats is an appropriate response.</p> <p>Specifying certain prohibitions that may not be significant to the assurance practitioner's consideration for a</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
			particular engagement may detract the assurance practitioner from considering other situations that may be more relevant.
IT systems services	NZ291.147.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.	<p>The risks would be the same for all assurance engagements and staff believe that the gap should be addressed in s291.</p> <p>Recommendation: Add to s291.</p>	<p>[IESBA restructured Code R606.5]</p> <p>This prohibition is more likely to be applicable in a financial statement audit/review and therefore is appropriate to include in section 290. Inclusion of this specific prohibition in section 291 (new Part 4B) does not reflect the wide range of possible subject matters and subject matter information likely in an other assurance engagement.</p> <p>The market for other assurance is still developing. As the market matures it may become appropriate for more detailed guidance to be established.</p> <p>The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address the threats is an appropriate response.</p> <p>Specifying certain prohibitions that may not be significant to the assurance practitioner's consideration for a particular engagement may detract the assurance practitioner from considering other situations that may be more relevant.</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
Recruiting services	<p>NZ291.147.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:</p> <ul style="list-style-type: none"> • Searching for or seeking out candidates for such positions; and • Undertaking reference checks of prospective candidates for such positions. 	<p>If the firm has played a significant role in recruiting the client's employee in a position to exert influence over the preparation of the subject matter on which the firm is to provide an opinion, the same risk exists for other assurance engagements. There is a gap in s291 and staff recommend that this should be filled.</p> <p>Recommendation: Add to s291</p>	<p>[IESBA restructured Code R609.7]</p> <p>This prohibition is more likely to be applicable in a financial statement audit/review and therefore is appropriate to include in section 290. Inclusion of this specific prohibition does not reflect the wide range of possible subject matters and subject matter information likely in an other assurance engagement.</p> <p>The market for other assurance is still developing. As the market matures it may become appropriate for more detailed guidance to be established.</p> <p>The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address the threats is an appropriate response.</p> <p>Specifying certain prohibitions that may not be significant to the assurance practitioner's consideration for a particular engagement may detract the assurance practitioner from considering other situations that may be more relevant.</p> <p>[Note to the Board: this particular provision is no longer applicable only to PIEs in the IESBA restructured Code. As such, does the Board still believe that it is a compelling reason change?]</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
Fees – relative size	<p>NZ291.149.1 Where an assurance client is a public interest entity and for two consecutive years the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level and apply the selected safeguard:</p> <ul style="list-style-type: none"> • Prior to the issuance of the second year's opinion another assurance practitioner who is not a member of the firm expressing the conclusion performs an engagement quality control review of that engagement ("a pre-issuance review"); or • After the second year's opinion has been issued and before the issuance of the conclusion on the third year's opinion another assurance practitioner who is not a member of the firm performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review"). <p>When the total fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p> <p>Thereafter when the fees continue to exceed 15% each year the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable</p>	<p>There is a gap in s291. This is a risk that applies equally to all types of assurance engagements. In practical terms however, staff believe that all such clients will be audit clients of the firm too, but consider that the risk should be covered in s291.</p> <p>Recommendation: Add to s291</p>	<p>[IESBA restructured Code R410.4]</p> <p>The initial assessment notes there is likely to be little impact from including this provision as clients are likely to be audit clients of the firm, in which case Part 4A will apply.</p> <p>In compliance with the Code, the practitioner would apply the conceptual framework. To the extent that fees from one client is identified as a threat, the assurance practitioner is required to evaluate that threat and address the threat by eliminating or reducing it to an acceptable level.</p> <p>The Subcommittee is of the view that such a requirement is unlikely to lead to a significant improvement in audit quality (as the conceptual framework applies) and therefore the compelling reason test has not been met.</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.		
Long association (PIE)	<p>NZ291.141.1 In respect of a recurring assurance engagement for a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time on period”):</p> <ul style="list-style-type: none"> (a) The engagement partner; (b) The individual appointed as responsible for the engagement quality control review; or (c) Any other key assurance partner role. <p>After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs NZ291.141.3 – NZ291.141.10.</p>	<p>If the firm has been providing this service for 7 consecutive years, the familiarity threat would be equally relevant in other assurance engagements.</p> <p>Recommendation: Add to s291</p>	<p>IESBA restructured Code section 540]</p> <p>In line with its previous view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter, the Board determined that the revised PIE long association provisions for audit and review engagements should also be applicable to other assurance engagements. The final approved long association provisions are reflected in the column “extant PES 1 (Revised)”.</p> <p>At the time of approving these amendments, the Board did not reconsider whether those compelling reasons are still met.</p> <p>The basis for conclusions notes that while stakeholders agreed that conceptually the independence requirements should be the same for all assurance engagements, some questioned whether the compelling reason test is still met, given the impact of the long association changes, and the majority were opposed to applying those changes across the board.</p> <p>As noted in the introductory section, the</p>
	<p>NZ291.141.2 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs NZ291.141.3 to NZ291.141.5 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph NZ291.141.6.</p>		
	<p>NZ291.141.3 If the individual acted as the engagement</p>		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	partner for seven cumulative years, the cooling-off period shall be five consecutive years.		<p>stricter independence requirements were introduced to the International Code by the IESBA in response to the loss in credibility of financial statements due to several high profile corporate/audit failures. The subcommittee notes that such failures related to audits of public entities. There is no evidence to suggest that the same failings existed in other assurance engagements.</p> <p>The familiarity threat or self-interest threat that is created by long service with a client is addressed by the conceptual framework. The assurance practitioner is required to identify, evaluate and address the threat. To the extent that threat can only be addressed by rotating the assurance practitioner off the engagement team, the firm is required to determine the appropriate time off period, which is required to be of sufficient duration to address the familiarity or self-interest threat.</p> <p>Given the following:</p> <ul style="list-style-type: none"> • The developing nature of the other assurance market; • The wide range of possible subject matters and subject matter information; and • The possibility that the PIE will also be an audit/review client,
	NZ291.141.4 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.		
	NZ291.141.5 If the individual has acted in any other capacity as a key assurance partner for seven cumulative years, the cooling-off period shall be two consecutive years.		
	NZ291.141.6 If the individual acted in a combination of key assurance partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.		
	NZ291.141.7 If the individual acted in a combination of key assurance partner roles and served as the key assurance partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph NZ291.141.8(a), be three consecutive years.		
	<p>NZ291.141.8 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:</p> <p>(a) Five consecutive years where the individual has been the engagement partner for three or more years; or</p> <p>(b) Three consecutive years in the case of any other combination.</p>		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	NZ291.141.9 If the individual acted in any other combination of key assurance partner roles, the cooling-off period shall be two consecutive years.		and that the assurance practitioner/firm will therefore be subject to Part 4A of the Code
	NZ291.141.10 In determining the number of years that an individual has been a key assurance partner under paragraphs NZ291.141.1 to NZ291.141.2, the length of the relationship shall, where relevant, include time while the individual was a key assurance partner on that engagement at a prior firm.		the Subcommittee is of the view that the imposing the stricter PIE provisions on other assurance engagements is unlikely to significantly improve audit quality beyond what would be achieved by applying the conceptual framework.
	<p>NZ291.141.11 For the duration of the relevant cooling-off period, the individual shall not:</p> <ul style="list-style-type: none"> (a) Be a member of the engagement team or provide quality control for the assurance engagement; (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the engagement); (c) Be responsible for leading or coordinating the firm's professional services to the assurance client or overseeing the firm's relationship with the assurance client; or (d) Undertake any other role or activity not referred to above with respect to the assurance client, including the provision of non-assurance services, that would result in the individual: 		<p>The threat of familiarity due to long association tends to be stronger when the subject matter is the same from year to year, such as is the case in an audit/review engagement. The nature of other assurance engagements is that they may be infrequent, involve different subject matter from engagement to engagement.</p> <p>The Subcommittee also notes, that consideration of the provisions of Part 4A (previously section 290) is necessary if the assurance practitioner is engaged to perform a non-audit/review assurance engagement for an audit or review client.</p> <p>Accordingly, the Subcommittee is of the view that the compelling reason test has not been and that the PIE requirements should not be applied to Part 4B (previously section 291). Rather the Subcommittee is of the view that the</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	<ul style="list-style-type: none"> i. Having significant or frequent interaction with senior management or those charged with governance; or ii. Exerting directly influence on the outcome of the engagement. <p>The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.</p>		conceptual framework is sufficient to address the threats to independence.
	<p>NZ291.141.12 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key assurance partner to continue in that role even though the length of time served as a key assurance partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the assurance engagement prior to an individual becoming a key assurance partner.</p>		
	<p>NZ291.141.13 Despite paragraphs NZ291.141.1- NZ291.141.9, key assurance partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain in that role on the assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended</p>		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.		
	NZ291.141.14 When an assurance client becomes a public interest entity, the length of time the individual has served the assurance client as a key assurance partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the assurance client as a key assurance partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the assurance client as a key assurance partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.		
	NZ291.141.15 When a firm has only a few people with the necessary knowledge and experience to serve as a key assurance partner on the assurance engagement of a public interest entity, rotation of key assurance partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key assurance partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified other requirements which are to be applied, such as the length of time that the key assurance partner may be exempted from		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	rotation or a regular independent external review.		

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GUIDE TO THE CODE

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

Purpose of the Code

1. ~~Professional and Ethical Standard 1, The 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 responsibility. These principles establish the standard of behavior expected of an assurance practitioner~~professional accountant~~. 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 (New Zealand)*, established by the application of the conceptual framework to threats to independence in relation to these engagements.

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 – deleted by the NZAuASB]Professional Accountants in Business, 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.~~
 - Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.
 - Part 3 – *Professional Accountants in Public Practice*Application of the Code, Fundamental Principles and Conceptual Framework, which sets out additional material that applies to ~~professional accountant~~assurance practitioners in public practice when providing assurance professional services.

- *International Independence Standards (New Zealand)*, 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 Audit and Review Engagements*, which applies when performing audit or review engagements.
- Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.

- *Glossary*, which 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 engagement" applies equally to both audit and review engagements.~~ The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.

Commented [SW1]: This example is not relevant in NZ. In Part 4A we specify audit and review separately for clarity.

5. The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. 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. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- 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

The Fundamental Principles, Independence and Conceptual Framework

6. The Code requires ~~professional accountants~~assurance practitioners to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires exercising professional judgment, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.
7. The conceptual framework recognizes that the existence of conditions, policies and procedures established by the profession, legislation, regulation, or the firm, ~~or the employing organization~~ might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the ~~professional accountant's~~assurance practitioner's evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires the accountant-assurance practitioner to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the accountant-assurance practitioner takes that effectively reduce threats to an acceptable level.
8. In addition, the Code requires ~~professional accountants~~assurance practitioners to be independent when performing audit, review and other assurance engagements. The conceptual framework

applies in the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.

9. Complying with the Code requires knowing, understanding and applying:

- All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 200, 300, 400 and 900, as applicable.
- All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled "General" and "All Audit Clients" together with additional specific provisions, including those set out under the subheadings titled "Audit Clients that are not Public Interest Entities" or "Audit Clients that are Public Interest Entities."
- All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

Commented [SW2]: Not clear to me why this refers only to section 400 and not 500,600,700 or 800?

Requirements and Application Material

10. Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

Requirements

11. Requirements are designated with the letter "R" and, in most cases, include the word "shall." The word "shall" in the Code imposes an obligation on an assurance practitioner ~~professional accountant~~ or firm to comply with the specific provision in which "shall" has been used.
12. In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter "R" but uses "may" or conditional wording.
13. 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. It is not used to denote possibility.
14. 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. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

Application Material

15. 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 the letter "A."
16. Where application material includes lists of examples, these lists are not intended to be exhaustive.

Appendix to Guide to the Code

17. The Appendix to this Guide provides an overview of the Code.

OVERVIEW OF THE CODE

PART 1

COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

(ALL PROFESSIONAL ACCOUNTANTS - SECTIONS 100 TO 199)

PART 2

PROFESSIONAL ACCOUNTANTS IN BUSINESS

~~(SECTIONS 200 TO 299)~~

~~(PART 2 IS ALSO APPLICABLE TO INDIVIDUAL PROFESSIONAL ACCOUNTANTS
IN PUBLIC PRACTICE WHEN PERFORMING PROFESSIONAL ACTIVITIES
PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM) [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 (NEW ZEALAND)

(PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

(SECTIONS 400 TO 899)

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

(SECTIONS 900 TO 999)

GLOSSARY

~~(ALL PROFESSIONAL ACCOUNTANTS)~~

PROFESSIONAL AND ETHICAL STANDARD 1 INTERNATIONAL CODE
OF ETHICS FOR PROFESSIONAL ACCOUNTANTS ASSURANCE
PRACTITIONERS
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW
ZEALAND)

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NEW ZEALAND 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 [IESBA3]: 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 Parts 1, 3 and 4 of the International Code of Ethics for Professional Accountants (including International Independence Standards ("the International Code"). The International Code is issued by the International Ethics Standards Board for Accountants. It is published by the International Federation of Accountants (IFAC) and used with permission of IFAC, as it applies to assurance practitioners in New Zealand. New Zealand additions and deletions are prefixed with NZ in the Code.~~

Commented [SW4]: 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 International Independence Standards (New Zealand) set out requirements that apply to all entities and all assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements. Many of the examples provided of actions that might address the threat may not be available to small entities and small firms. 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.~~

Commented [SW5]: Propose deleting extant wording. Is this necessary in the Preface?

NEW ZEALAND SCOPE AND APPLICATION

NZ1.1 Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* ("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 accountancy 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 [SW6]: 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

General

100.1 A1 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 ~~professional accountants~~ assurance practitioners to meet their responsibility to act in the public interest.

Commented [IESBA7]: 100.1

100.2 A1 The requirements in the Code, designated with the letter "R," impose obligations.

Commented [IESBA8]: New paragraph

100.2 A2 Application material, designated with the letter "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 professional accountant~~ assurance practitioner 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 [IESBA9]: New paragraph

R100.3 ~~An assurance practitioner professional accountant~~ shall comply with the Code. There might be circumstances where 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 [IESBA10]: 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 provisions 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 provisions unless prohibited by law or regulation.~~

Commented [SW11]: Consistent with extant PES1, we do not propose to include this wording in the Code.

Commented [IESBA12]: Preface

100.3 A2 ~~An professional accountant assurance practitioner~~ 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 or regulatory body.

Commented [IESBA13]: 100.11

Breaches of the Code

R100.4 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards (New Zealand)*. ~~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 ~~accountant's assurance practitioner's~~ ability to comply with the fundamental principles. The ~~accountant assurance practitioner~~ shall also:

Commented [IESBA14]: 100.10

DRAFT RESTRUCTURED PES 1
Based on the approved restructured international code

- (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 or regulatory body or an oversight authority.

Commented [IESBA15]: 100.10

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for ~~professional accountants~~ assurance practitioners:

Commented [IESBA16]: 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 assurance professional services, based on current technical and professional standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation; and
 - (ii) Act diligently and in accordance with 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.

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

Commented [IESBA17]: 100.5

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner-professional accountant. The conceptual framework establishes the approach which an ~~accountant-assurance practitioner~~ is required to apply to assist in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

Commented [IESBA18]: 100.2, 100.5

110.2 A2 ~~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 [IESBA19]: 100.19, 100.20, 100.21

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

- Legal counsel.

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

- 110.2 A3 The ~~professional-accountant-assurance practitioner~~ is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

Commented [IESBA20]: 100.22

SUBSECTION 111 – INTEGRITY

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

Commented [IESBA21]: 110.1

- 111.1 A1 Integrity implies fair dealing and truthfulness.

Commented [IESBA22]: 110.1

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

Commented [IESBA23]: 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 ~~accountant-assurance practitioner~~ is not in breach of paragraph R111.2.

Commented [IESBA24]: 110.3

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

Commented [IESBA25]: 110.2

SUBSECTION 112 – OBJECTIVITY

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

Commented [IESBA26]: 120.1

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

Commented [IESBA27]: 120.2, 280.4

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

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

Commented [IESBA28]: 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 ~~current technical and professional standards~~ issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board 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 organizations~~ with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

Commented [IESBA29]: 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 [IESBA30]: 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 [IESBA31]: 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 [IESBA32]: 130.5

R113.3 ~~Where appropriate, an assurance practitioner professional accountant~~ shall make clients, ~~the 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 [IESBA33]: 130.6

SUBSECTION 114 – CONFIDENTIALITY

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

Commented [IESBA34]: 140.1

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

Commented [IESBA35]: 140.2

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

Commented [IESBA36]: 140.4

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

Commented [IESBA37]: 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 [IESBA38]: 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 [IESBA39]: 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 that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the ~~accountant's assurance practitioner's~~ control, and individuals from whom advice and assistance are obtained, respect the ~~accountant's assurance practitioner's~~ duty of confidentiality.

Commented [IESBA40]: 140.6

Commented [IESBA41]: 140.5

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

Commented [IESBA42]: 140.7

- (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 ~~in~~enquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of an ~~an assurance practitioner professional accountant~~ in legal proceedings; or
 - (iv) To comply with 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, including ethics requirements.

NZ114.1 A1.1 The circumstances in paragraph 114.1 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 [SW43]: Is this change appropriate here? This is not changed in extant PES 1 (Revised).

Commented [SW44]: extant PES 1 (Revised) NZ 140.7

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

Commented [IESBA45]: 140.8

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

R114.2 An ~~assurance practitioner~~ ~~professional accountant~~ shall continue to comply with the principle of confidentiality even after the end of the relationship between the ~~accountant~~ ~~assurance practitioner~~ and a client ~~or employing organization~~. When ~~changing employment or~~ acquiring a new client, the ~~accountant~~ ~~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 [IESBA46]: 140.6

SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

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

Commented [IESBA47]: 150.1, 200.2

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

Commented [IESBA48]: 150.1

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

Commented [IESBA49]: 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 ~~accountant~~ ~~assurance practitioner~~ is encouraged to consult with the relevant professional body.

Commented [IESBA50]: 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 ~~accountants~~ assurance practitioners in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate 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 ~~accountants-assurance practitioners~~ from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

Commented [IESBA51]: 100.6

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

Commented [IESBA52]: 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

General

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

Commented [IESBA53]: 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 [IESBA54]: 100.3, 100.15

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

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

~~(e)(b) International Independence Standards (New Zealand)~~, as follows:

- (i) Part 4A – Independence for Audit and Review Engagements; and
- (ii) Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.

R120.4 When ~~dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances. [Amended by the NZAuASB. Refer to NZR 120.4 and NZ 120.4 A1]~~

Commented [IESBA55]: New paragraph arising from Applicability project

NZR 120.4 When dealing with an ethics issue, the ~~professional accountant~~ assurance practitioner shall

Commented [SW56]: Based on IESBA paragraph R120.4 amended for NZ context.

consider the context in which the issue has arisen or might arise.

NZ 120.4 A1 Where an individual who is an assurance practitioner-professional accountant in public practice is performing professional activities-assurance services pursuant to the accountant's assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 any other ethical standards that apply to these circumstances.

Commented [SW57]: Based on IESBA paragraph R120.4 amended for NZ context.

R120.5 When applying the conceptual framework, the professional accountantassurance practitioner shall:

- (a) Exercise professional judgement;
- (b) Remain alert for new information and to changes in facts and circumstances; and
- (c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

Commented [IESBA58]: 100.2, 100.7, 290.7

Commented [IESBA59]: 220.6, 310.6

Commented [IESBA60]: 100.7

Exercise of Professional Judgement

120.5 A1 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional-assurance activities, and the interests and relationships involved. In relation to undertaking professional-assurance activities, the exercise of professional judgement is required when the professional accountantassurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

Commented [IESBA61]: New paragraph arising from Professional Skepticism short term project

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgement.

Commented [IESBA62]: New paragraph arising from Professional Skepticism project

120.5 A3 In exercising professional judgement to obtain this understanding, the professional accountantassurance practitioner might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountantassurance practitioner.
- There is an inconsistency between the known facts and circumstances and the accountant's-assurance practitioner's expectations.
- The accountant's-assurance practitioner's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The information provides a reasonable basis on which to reach a conclusion.
- The accountant's-assurance practitioner's own preconception or bias might be affecting the assurance practitioner'saccountant's exercise of professional judgement.
- There might be other reasonable conclusions that could be reached from the available information.

Commented [IESBA63]: New paragraph arising from Professional Skepticism short term project

Reasonable and Informed Third Party

120.5 A4 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]: 100.5

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. The existence of 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 help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

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 ~~an assurance practitioner's professional accountant's~~ assurance practitioner's judgement or behaviour;
- (b) Self-review threat – the threat that an ~~assurance practitioner professional accountant~~ assurance practitioner 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 ~~accountant~~ assurance practitioner will rely when forming a judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that an ~~assurance practitioner professional accountant~~ assurance practitioner will promote a client's ~~or employing organization's~~ position to the point that the ~~accountant's~~ assurance practitioner's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, ~~or employing organization~~, an ~~assurance practitioner professional accountant~~ assurance practitioner 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 ~~accountant~~ ~~assurance practitioner~~.

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 ~~professional accountant~~ ~~assurance practitioner~~ 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]: 100.6, 100.8

Acceptable Level

120.7 A1 An acceptable level is a level at which 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.

Commented [IESBA71]: Glossary

Factors Relevant in Evaluating the Level of Threats

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the ~~professional accountant's~~ ~~assurance practitioner's~~ evaluation of threats, as is the combined effect of multiple threats, if applicable.

Commented [IESBA72]: 100.9, 290.11

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

Commented [IESBA73]: 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.

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 ~~professional accountant~~ ~~assurance practitioner~~ 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 ~~accountant's assurance practitioner'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 threat. (Ref: Paras. R120.7 and R120.10).

Commented [IESBA76]: 290.10

Addressing Threats

R120.10 If the ~~professional accountant~~ assurance practitioner 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 ~~accountant assurance practitioner~~ shall do so by:

Commented [IESBA77]: New paragraph

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

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, 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 threat to an acceptable level.

Commented [IESBA78]: New paragraph

Safeguards

120.10 A2 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 [IESBA79]: 100.9, 100.13

Consideration of Significant Judgments Made and Overall Conclusions Reached

R120.11 The ~~professional accountant~~ assurance practitioner shall form an overall conclusion about whether the actions that the ~~accountant assurance practitioner~~ 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 ~~accountant assurance practitioner~~ shall:

Commented [IESBA80]: New paragraph

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

Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.12 A1 ~~Professional accountants~~ Assurance practitioners in public practice are required by International Independence Standards (New Zealand) 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 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.

Commented [IESBA81]: 290.6

120.12 A2 *International Independence Standards (New Zealand)* 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 requirements.

Commented [IESBA82]: New paragraph

Professional Skepticism

120.13 A1 Under auditing, review and other assurance standards, including those issued by the IAASB New Zealand Auditing and Assurance Standards Board, ~~professional accountants in public practice~~ assurance practitioners are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

Commented [IESBA83]: New paragraph arising from Professional Skepticism short term project

120.13 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the ~~professional accountant~~ assurance practitioner to be straightforward and honest. For example, the ~~accountant-assurance practitioner~~ complies with the principle of integrity by:
 - (a) Being straightforward and honest when raising concerns about a position taken by a client; and
 - (b) Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.

Commented [IESBA84]: New paragraph arising from Professional Skepticism short term project

In doing so, the ~~accountant-assurance practitioner~~ demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the ~~professional accountant~~ assurance practitioner not to compromise professional or business judgment because of bias, conflict of interest or

the undue influence of others. For example, the accountant-assurance practitioner complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's—professionalassurance practitioner's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the accountant's-assurance practitioner's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant-assurance practitioner behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the professional-accountantassurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant-assurance practitioner complies with the principle of professional competence and due care by:

- (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
- (b) Designing and performing appropriate audit procedures; and
- (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant-assurance practitioner behaves in a manner that contributes to the exercise of professional skepticism.

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PART 2 – ~~PROFESSIONAL ACCOUNTANTS IN BUSINESS~~Deleted by the NZAuASB

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

Introduction

~~200.1 This Part of the Code sets out requirements and application material for professional accountants in business 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 in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.~~

Commented [IESBA85]: 300.1

~~200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.~~

Commented [IESBA86]: 300.2

~~200.3 A professional accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.~~

Commented [IESBA87]: 300.3

~~200.4 In this Part, the term "professional accountant" refers to:~~

Commented [IESBA88]: New paragraph

~~(a) A professional accountant in business; and~~

~~(b) An individual who is a professional accountant in public practice when performing professional activities pursuant to the accountant's relationship with the accountant's firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to professional accountants in public practice is set out in paragraphs R120.4, R300.5 and 300.5 A1.~~

Requirements and Application Material

General

~~R200.5 A 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 [IESBA89]: 300.6

~~200.5 A1 A professional accountant has a responsibility to further the legitimate objectives of the accountant's employing organization. The Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.~~

Commented [IESBA90]: 300.4

~~200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.~~

Commented [IESBA91]: 300.10

~~200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:~~

Commented [IESBA92]: 300.5

- ~~• Ethics education and training programs.~~
- ~~• Ethics and whistle-blowing policies.~~
- ~~• Policies and procedures designed to prevent non-compliance with laws and regulations.~~

Identifying Threats

~~200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:~~

Commented [IESBA93]: 300.7

~~(a) Self-interest Threats~~

Commented [IESBA94]: 300.8

- ~~• A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.~~
- ~~• A professional accountant participating in incentive compensation arrangements offered by the employing organization.~~
- ~~• A professional accountant having access to corporate assets for personal use.~~
- ~~• A professional accountant being offered a gift or special treatment from a supplier of the employing organization.~~

~~(b) Self-review Threats~~

Commented [IESBA95]: 300.9

- ~~• A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.~~

~~(c) Advocacy Threats~~

- ~~• A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.~~

~~(d) Familiarity Threats~~

Commented [IESBA96]: 300.11

- ~~• A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by~~

~~the organization makes decisions that affect the financial reporting of the organization.~~

- ~~• A professional accountant having a long association with individuals influencing business decisions.~~

~~(e) Intimidation Threats~~

- ~~• A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - ~~○ The application of an accounting principle.~~
 - ~~○ The way in which financial information is to be reported.~~~~
- ~~• An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.~~

Commented [IESBA97]: 300.12

Evaluating Threats

~~200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.~~

Commented [IESBA98]: New paragraph

~~200.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.~~

Commented [IESBA99]: New paragraph

~~200.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:~~

Commented [IESBA100]: 300.14

- ~~• Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.~~
- ~~• Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.~~
- ~~• Policies and procedures to implement and monitor the quality of employee performance.~~
- ~~• Systems of corporate oversight or other oversight structures and strong internal controls.~~
- ~~• Recruitment procedures emphasizing the importance of employing high-caliber competent personnel.~~
- ~~• Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.~~
- ~~• Ethics and code of conduct policies.~~

~~200.7 A4 Professional accountants might consider obtaining legal advice where they believe that unethical behavior or actions by others have occurred, or will continue to occur, within the employing organization.~~

Commented [IESBA101]: 300.15

Addressing Threats

~~200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.~~

Commented [IESBA102]: New paragraph

~~200.8 A2~~ In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for a professional accountant to resign from the employing organization.

Commented [IESBA103]: 300.15

Communicating with Those Charged with Governance

~~R200.9~~ When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

Commented [IESBA104]: 100.25

~~200.9 A1~~ In determining with whom to communicate, a professional accountant might consider:

Commented [IESBA105]: 100.25

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

~~200.9 A2~~ Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

Commented [IESBA106]: 100.25

~~R200.10~~ If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

Commented [IESBA107]: 100.26

~~200.10 A1~~ In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

Commented [IESBA108]: 100.26

SECTION 210

CONFLICTS OF INTEREST

Introduction

~~210.1 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.~~

Commented [IESBA109]: New paragraph

~~210.2 A conflict of interest creates threats 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 [IESBA110]: 310.1

~~(a) A professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or~~

~~(b) The interest of a professional accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.~~

~~A party might include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.~~

~~210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.~~

Commented [IESBA111]: New paragraph

Requirements and Application Material

General

~~R210.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.~~

Commented [IESBA112]: 310.5

~~210.4 A1 Examples of circumstances that might create a conflict of interest include:~~

Commented [IESBA113]: 310.2

- ~~• Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.~~
- ~~• Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.~~
- ~~• Preparing financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.~~
- ~~• Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.~~
- ~~• Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.~~

Conflict Identification

~~R210.5~~ A 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:

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

~~R210.6~~ A professional accountant shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Commented [IESBA114]: 310.3, 310.6

Commented [IESBA115]: 310.3, 310.6

Commented [IESBA116]: 310.6

Threats Created by Conflicts of Interest

~~210.7 A1~~ In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

~~210.7 A2~~ An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

~~210.7 A3~~ Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- ~~•~~ Restructuring or segregating certain responsibilities and duties.
- ~~•~~ Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

Commented [IESBA117]: 310.7

Commented [IESBA118]: 220.3, 220.9

Commented [IESBA119]: 310.8

Commented [IESBA120]: 310.8

Disclosure and Consent

General

~~210.8 A1~~ It is generally necessary to:

- ~~(a)~~ Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organization affected by a conflict; and
- ~~(b)~~ Obtain consent from the relevant parties for the professional accountant to undertake the professional activity when safeguards are applied to address the threat.

~~210.8 A2~~ Consent might be implied by a party's conduct in circumstances where the professional accountant has sufficient evidence to conclude that the parties 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 [IESBA121]: 310.9

Commented [IESBA122]: 310.9

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~~210.8 A3~~ If such disclosure or consent is not in writing, the 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 when applicable; and
- ~~(c)~~ The consent obtained.

Other Considerations

~~210.9 A1~~ When addressing a conflict of interest, the professional accountant is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another accountant. When making such disclosures or sharing information within the employing organization and seeking guidance of third parties, the principle of confidentiality applies.

Commented [IESBA123]: 310.10

Commented [IESBA124]: 310.4

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

~~220.1 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.~~

Commented [IESBA125]: New paragraph

~~220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.~~

Commented [IESBA126]: New paragraph

Requirements and Application Material

General

~~220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.~~

Commented [IESBA127]: 320.1

~~220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:~~

Commented [IESBA128]: 320.1

- ~~• Management and those charged with governance.~~
- ~~• Investors and lenders or other creditors.~~
- ~~• Regulatory bodies.~~

~~This information might assist stakeholders in understanding and evaluating aspects of the employing organization's state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.~~

~~Examples include:~~

- ~~• Operating and performance reports.~~
- ~~• Decision support analyses.~~
- ~~• Budgets and forecasts.~~
- ~~• Information provided to the internal and external auditors.~~
- ~~• Risk analyses.~~
- ~~• General and special purpose financial statements.~~
- ~~• Tax returns.~~
- ~~• Reports filed with regulatory bodies for legal and compliance purposes.~~

~~220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.~~

Commented [IESBA129]: 320.2

~~R220.4 When preparing or presenting information, a professional accountant shall:~~

Commented [IS130]: 320.2

- ~~(a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;~~

- ~~(b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;~~
- ~~(c) Exercise professional judgment to:~~
 - ~~(i) Represent the facts accurately and completely in all material respects;~~
 - ~~(ii) Describe clearly the true nature of business transactions or activities; and~~
 - ~~(iii) Classify and record information in a timely and proper manner; and~~
- ~~(d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.~~

~~220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.~~

Commented [IESBA131]: 320.2

Use of Discretion in Preparing or Presenting Information

~~R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.~~

Commented [IESBA132]: 320.3

~~220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:~~

Commented [IESBA133]: 320.3

- ~~• Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.~~
- ~~• Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long term contracts in order to misrepresent profit or loss.~~
- ~~• Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.~~
- ~~• Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.~~
- ~~• Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.~~

~~R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:~~

Commented [IESBA134]: 320.4

- ~~(a) The purpose for which the information is to be used;~~
- ~~(b) The context within which it is given; and~~
- ~~(c) The audience to whom it is addressed.~~

~~220.6 A1~~ For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

Commented [IESBA135]: 320.4

~~220.6 A2~~ The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

Commented [IESBA136]: 320.4

Relying on the Work of Others

~~R220.7~~ A professional accountant who intends to rely on the work of others, either internal or external to the employing organization, shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

Commented [IESBA137]: 320.5

~~220.7 A1~~ Factors to consider in determining whether reliance on others is reasonable include:

Commented [IESBA138]: 320.5

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

Addressing Information that Is or Might be Misleading

~~R220.8~~ When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

Commented [IESBA139]: 320.6

~~220.8 A1~~ Actions that might be appropriate include:

Commented [IESBA140]: 320.6

- Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

~~220.8 A2~~ The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

Commented [IESBA141]: 320.7

- Consulting with:
 - A relevant professional body.
 - The internal or external auditor of the employing organization.
 - Legal counsel.

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- ~~Determining whether any requirements exist to communicate to:~~
 - ~~Third parties, including users of the information.~~
 - ~~Regulatory and oversight authorities.~~

R220.9 ~~If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.~~

Commented [IESBA142]: 320.8

220.9 A1 ~~In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.~~

Commented [IESBA143]: 320.8

Documentation

220.10 A1 ~~The professional accountant is encouraged to document:~~

Commented [IESBA144]: 370.6

- ~~The facts.~~
- ~~The accounting principles or other relevant professional standards involved.~~
- ~~The communications and parties with whom matters were discussed.~~
- ~~The courses of action considered.~~
- ~~How the accountant attempted to address the matter(s).~~

Other Considerations

220.11 A1 ~~Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.~~

Commented [IESBA145]: 320.9

220.11 A2 ~~Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.~~

Commented [IESBA146]: 320.6

220.11 A3 ~~Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.~~

Commented [IESBA147]: 320.10

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

Introduction

230.1 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.

Commented [IESBA148]: New paragraph

230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA149]: New paragraphs

Requirements and Application Material

General

R230.3 A professional accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.

Commented [IESBA150]: 330.1

230.3 A1 The principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.

Commented [IESBA151]: 300.1

230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if a professional accountant has:

Commented [IESBA152]: 330.2

- Insufficient time for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties.
- Insufficient experience, training and/or education.
- Inadequate resources for the performance of the duties.

230.3 A3 Factors that are relevant in evaluating the level of such a threat include:

Commented [IESBA153]: 330.3

- The extent to which the professional accountant is working with others.
- The relative seniority of the accountant in the business.
- The level of supervision and review applied to the work.

230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

Commented [IESBA154]: 330.3

- Obtaining assistance or training from someone with the necessary expertise.
- Ensuring that there is adequate time available for performing the relevant duties.

R230.4 If a threat to compliance with the principle of professional competence and due care cannot be addressed, a professional accountant shall determine whether to decline to perform the duties in question. If the accountant determines that declining is appropriate, the accountant shall communicate the reasons.

Commented [IESBA155]: 330.4

Other Considerations

230.5 A1 The requirements and application material in Section 270 apply when a professional accountant is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

Commented [IESBA156]: 330.5

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING

Introduction

240.1 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.

Commented [IESBA157]: New paragraph

240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA158]: 340.1

Commented [IESBA159]: 340.1

Requirements and Application Material

General

R240.3 A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

Commented [IESBA160]: 340.2

240.3 A1 Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.

Commented [IESBA161]: 340.1

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:

Commented [IESBA162]: 340.1

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.
- Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the accountant.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

~~240.3 A3~~ Factors that are relevant in evaluating the level of such a threat include:

- ~~The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.~~
- ~~Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.~~
- ~~In accordance with any internal policies, disclosure to those charged with governance of:~~
 - ~~All relevant interests.~~
 - ~~Any plans to exercise entitlements or trade in relevant shares.~~
- ~~Internal and external audit procedures that are specific to address issues that give rise to the financial interest.~~

Commented [IESBA163]: 340.3

~~240.3 A4~~ Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

Commented [IESBA164]: 340.4

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SECTION 250

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

[Reserved for Section 250 which forms part of the Inducements project.]

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

260.1 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.

Commented [IESBA165]: New paragraph

260.2 A self interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

Commented [IESBA166]: New paragraph

260.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

Commented [IESBA167]: 360.1

Commented [IESBA168]: 360.5

(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:

Commented [IESBA169]: 360.4

(a) To comply with the principles of integrity and professional behavior;

(b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

260.5 A1 ~~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:~~

Commented [IESBA170]: 360.2

- ~~(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.~~

260.5 A2 ~~Examples of laws and regulations which this section addresses include those that deal with:~~

Commented [IESBA171]: 360.6

- ~~• Fraud, corruption and bribery.~~
- ~~• Money laundering, terrorist financing and proceeds of crime.~~
- ~~• Securities markets and trading.~~
- ~~• Banking and other financial products and services.~~
- ~~• Data protection.~~
- ~~• Tax and pension liabilities and payments.~~
- ~~• Environmental protection.~~
- ~~• Public health and safety.~~

260.5 A3 ~~Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.~~

Commented [IESBA172]: 360.7

R260.6 ~~In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:~~

Commented [IESBA173]: 360.3

- ~~(a) Any requirement to report the matter to an appropriate authority; and~~
- ~~(b) Any prohibition on alerting the relevant party.~~

260.6 A1 ~~A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.~~

Commented [IESBA174]: 360.3

~~260.7.A1 This section applies regardless of the nature of the employing organization, including whether or not it is a public interest entity.~~

Commented [IESBA175]: 360.1

~~260.7.A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organization, its stakeholders and the general public.~~

Commented [IESBA176]: 360.8

~~260.7.A3 This section does not address:~~

Commented [IESBA177]: 360.9

~~(a) Personal misconduct unrelated to the business activities of the employing organization; and~~

~~(b) Non-compliance by parties other than those specified in paragraph 260.5.A1.~~

~~The professional accountant might nevertheless find the guidance in this section helpful in considering how to respond in these situations.~~

Responsibilities of the Employing Organization's Management and Those Charged with Governance

~~260.8.A1 The employing organization's management, with the oversight of those charged with governance, is responsible for ensuring that the employing organization's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:~~

Commented [IESBA178]: 360.10

~~(a) The employing organization;~~

~~(b) An individual charged with governance of the employing organization;~~

~~(c) A member of management; or~~

~~(d) Other individuals working for or under the direction of the employing organization.~~

Responsibilities of All Professional Accountants

~~R260.9 If protocols and procedures exist within the professional accountant's employing organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such non-compliance.~~

Commented [IESBA179]: 360.11

~~260.9.A1 Many employing organizations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.~~

Commented [IESBA180]: 360.11

~~R260.10 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees or the general public.~~

Responsibilities of Senior Professional Accountants in Business

~~260.11 A1 Senior professional accountants in business ("senior professional accountants") 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. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organization. This is because of senior professional accountants' roles, positions and spheres of influence within the employing organization.~~

Commented [IESBA181]: 360.13

Obtaining an Understanding of the Matter

~~R260.12 If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include:~~

Commented [IESBA182]: 360.14

- ~~(a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;~~
- ~~(b) The application of the relevant laws and regulations to the circumstances; and~~
- ~~(c) An assessment of the potential consequences to the employing organization, investors, creditors, employees or the wider public.~~

~~260.12 A1 A senior professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.~~

Commented [IESBA183]: 360.15

~~260.12 A2 Depending on the nature and significance of the matter, the senior professional accountant might cause, or take appropriate steps to cause, the matter to be investigated internally. The accountant might also consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.~~

Commented [IESBA184]: 360.15

Addressing the Matter

~~R260.13 If the senior professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R260.9, discuss the matter with the accountant's immediate superior, if any. If the accountant's immediate superior appears to be involved in the matter, the accountant shall discuss the matter with the next higher level of authority within the employing organization.~~

Commented [IESBA185]: 360.16

~~260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.~~

Commented [IESBA186]: 360.16

~~R260.14 The senior professional accountant shall also take appropriate steps to:~~

Commented [IESBA187]: 360.17

- ~~(a) Have the matter communicated to those charged with governance;~~

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- ~~(b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;~~
- ~~(c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;~~
- ~~(d) Reduce the risk of re-occurrence; and~~
- ~~(e) Seek to deter the commission of the non-compliance if it has not yet occurred.~~

260.14 A1 ~~The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.~~

Commented [IESBA188]: 360.17(a)

260.14 A2 ~~Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.~~

Commented [IESBA189]: New paragraph

R260.15 ~~In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed.~~

Commented [IESBA190]: 360.18

260.15 A1 ~~Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.~~

Commented [IESBA191]: 360.18

~~Determining Whether Further Action Is Needed~~

R260.16 ~~The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.~~

Commented [IESBA192]: 360.19

260.16 A1 ~~Relevant factors to consider in assessing the appropriateness of the response of the senior professional accountant's superiors, if any, and those charged with governance include whether:~~

Commented [IESBA193]: 360.20

- ~~• The response is timely.~~
- ~~• They have taken or authorized appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.~~
- ~~• The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.~~

R260.17 ~~In light of the response of the senior professional accountant's superiors, if any, and those charged with governance, the accountant shall determine if further action is needed in the public interest.~~

Commented [IESBA194]: 360.21

260.17 A1 ~~The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:~~

Commented [IESBA195]: 360.22

- ~~• The legal and regulatory framework.~~
- ~~• The urgency of the situation.~~
- ~~• The pervasiveness of the matter throughout the employing organization.~~

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- ~~Whether the senior professional accountant continues to have confidence in the integrity of the accountant's superiors and those charged with governance.~~
- ~~Whether the non-compliance or suspected non-compliance is likely to recur.~~
- ~~Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.~~

260.17 A2 ~~Examples of circumstances that might cause the senior professional accountant no longer to have confidence in the integrity of the accountant's superiors and those charged with governance include situations where:~~

- ~~The accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.~~
- ~~Contrary to legal or regulatory requirements, they have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.~~

R260.18 ~~The senior professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.~~

260.18 A1 ~~Further action that the senior professional accountant might take includes:~~

- ~~Informing the management of the parent entity of the matter if the employing organization is a member of a group.~~
- ~~Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.~~
- ~~Resigning from the employing organization.~~

260.18 A2 ~~Resigning from the employing organization is not a substitute for taking other actions that might be needed to achieve the senior professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, resignation might be the only available course of action.~~

Seeking Advice

260.19 A1 ~~As assessment of the matter might involve complex analysis and judgments, the senior professional accountant might consider:~~

- ~~Consulting internally.~~
- ~~Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.~~
- ~~Consulting on a confidential basis with a regulatory or professional body.~~

Determining Whether to Disclose the Matter to an Appropriate Authority

260.20 A1 ~~Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.~~

Commented [IESBA196]: 360.23

Commented [IESBA197]: 360.24

Commented [IESBA198]: 360.25

Commented [IESBA199]: 360.26

Commented [IESBA200]: 360.27

Commented [IESBA201]: 360.28

~~260.20 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:~~

- ~~• The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).~~
- ~~• The employing organization is regulated and the matter is of such significance as to threaten its license to operate.~~
- ~~• The employing organization is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organization's securities or pose a systemic risk to the financial markets.~~
- ~~• It is likely that the employing organization would sell products that are harmful to public health or safety.~~
- ~~• The employing organization is promoting a scheme to its clients to assist them in evading taxes.~~

Commented [IESBA202]: 360.29

~~260.20 A3 The determination of whether to make such a disclosure will also depend on external factors such as:~~

- ~~• Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.~~
- ~~• Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.~~
- ~~• Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.~~

Commented [IESBA203]: 360.29

~~**R260.21** If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.~~

Commented [IESBA204]: 360.30

Imminent Breach

~~**R260.22** In exceptional circumstances, the senior professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organization, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or~~

Commented [IESBA205]: 360.31

~~mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.~~

Documentation

~~260.23 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to have the following matters documented:~~

- ~~• The matter.~~
- ~~• The results of discussions with the accountant's superiors, if any, and those charged with governance and other parties.~~
- ~~• How the accountant's superiors, if any, and those charged with governance have responded to the matter.~~
- ~~• The courses of action the accountant considered, the judgments made and the decisions that were taken.~~
- ~~• How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R260.17.~~

Commented [IESBA206]: 360.32

Responsibilities of Professional Accountants Other than Senior Professional Accountants

~~R260.24 If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.~~

Commented [IESBA207]: 360.33

~~260.24 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.~~

Commented [IESBA208]: 360.34

~~260.24 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.~~

Commented [IESBA209]: 360.34

~~R260.25 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the accountant's immediate superior appears to be involved in the matter, the accountant shall inform the next higher level of authority within the employing organization.~~

Commented [IESBA210]: 360.35

~~R260.26 In exceptional circumstances, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the accountant does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.~~

Commented [IESBA211]: 360.36

Documentation

260.27 A1 ~~In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:~~

- ~~• The matter.~~
- ~~• The results of discussions with the accountant's superior, management and, where applicable, those charged with governance and other parties.~~
- ~~• How the accountant's superior has responded to the matter.~~
- ~~• The courses of action the accountant considered, the judgments made and the decisions that were taken.~~

Commented [IESBA212]: 360.37

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Commented [IESBA213]: New heading

Introduction

~~270.1 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.~~

Commented [IESBA214]: New paragraph

~~270.2 Pressure exerted on, or by, a professional accountant might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.~~

Commented [IESBA215]: 370.1

Requirements and Application Material

General

~~R270.3 A professional accountant shall not:~~

Commented [IESBA216]: 370.2

- ~~(a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or~~
- ~~(b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.~~

~~270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:~~

Commented [IESBA217]: 370.2

- ~~• Within the employing organization, for example, from a colleague or superior.~~
- ~~• An external individual or organization such as a vendor, customer or lender.~~
- ~~• Internal or external targets and expectations.~~

~~270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:~~

Commented [IESBA218]: 370.3

- ~~• Pressure related to conflicts of interest:
 - ~~○ Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.~~~~
- ~~See also Section 210, *Conflicts of Interest*.~~
- ~~• Pressure to influence preparation or presentation of information:
 - ~~○ Pressure to report misleading financial results to meet investor, analyst or lender expectations.~~
 - ~~○ Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.~~
 - ~~○ Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.~~~~

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○ ~~Pressure from superiors to approve or process expenditures that are not legitimate business expenses.~~

○ ~~Pressure to suppress internal audit reports containing adverse findings.~~

~~See also Section 220, *Preparation and Presentation of Information*.~~

● ~~Pressure to act without sufficient expertise or due care:~~

○ ~~Pressure from superiors to inappropriately reduce the extent of work performed.~~

○ ~~Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.~~

~~See also Section 230, *Acting with Sufficient Expertise*.~~

● ~~Pressure related to financial interests:~~

○ ~~Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.~~

~~See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision-Making*.~~

● ~~Pressure related to inducements:~~

○ ~~Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision-making process of an individual or organization.~~

○ ~~Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.~~

~~See also Section 250, *Inducements, Including Gifts and Hospitality*.~~

● ~~Pressure related to non-compliance with laws and regulations:~~

○ ~~Pressure to structure a transaction to evade tax.~~

~~See also Section 260, *Responding to Non-compliance with Laws and Regulations*.~~

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- ~~The intent of the individual who is exerting the pressure and the nature and extent of the pressure.~~
- ~~The application of laws, regulations, and professional standards to the circumstances.~~
- ~~The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.~~
- ~~Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.~~

Commented [IESBA219]: 370.4

~~270.3 A4~~ Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the professional accountant to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

Commented [IESBA220]: 370.4

- ~~Discussing the matter with the individual who is exerting the pressure to seek to resolve it.~~
- ~~Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.~~
- ~~Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:~~
 - ~~Higher levels of management.~~
 - ~~Internal or external auditors.~~
 - ~~Those charged with governance.~~
- ~~Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.~~
- ~~Consulting with:~~
 - ~~A colleague, superior, human resources personnel, or another professional accountant;~~
 - ~~Relevant professional or regulatory bodies or industry associations; or~~
 - ~~Legal counsel.~~

~~270.3 A5~~ An example of an action that might eliminate threats created by pressure is the professional accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

Commented [IESBA221]: New paragraph

Documentation

~~270.4 A1~~ The professional accountant is encouraged to document:

Commented [IESBA222]: 370.6

- ~~The facts.~~
- ~~The communications and parties with whom these matters were discussed.~~
- ~~The courses of action considered.~~
- ~~How the matter was addressed.~~

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

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Introduction

300.1 This Part of the Code sets out requirements and application material for assurance practitioners 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 assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.

Commented [IESBA223]: 200.1

300.2 The requirements and application material that apply to assurance practitioners are set out in:

Commented [IESBA224]: 100.3, 100.15, 290.1

- Part 3 – *Professional Accountants in Public Practice Application of the Code, Fundamental Principles and Conceptual Framework*, Sections 300 to 399, which applies to all assurance practitioners when providing assurance services.
- *International Independence Standards (New Zealand)* as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to assurance practitioners when performing audit and review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, Sections 900 to 999, which applies to assurance practitioners when performing assurance engagements other than audit or review engagements.

300.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.

Commented [IESBA225]: New paragraph

Requirements and Application Material

General

R300.4 An assurance practitioner 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 [IESBA226]: New paragraph

R300.5 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship

Commented [IESBA227]: New paragraph arising from Applicability project

~~with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances. [Deleted by the NZAuASB. Refer to NZR300.5.1]~~

NZR300.5.1 When dealing with an ethics issue, the ~~professional accountant~~ assurance practitioner shall consider the context in which the issue has arisen or might arise.

NZ300.5.1 A1 Where an individual who is an assurance practitioner ~~professional accountant in public practice~~ is performing ~~professional activities~~ assurance services pursuant to the ~~accountant's~~ assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical provisions ~~the provisions in Part 2~~ that apply to these circumstances.

300.5 A1 Examples of such situations ~~in which the provisions in Part 2 apply to a professional accountant in public practice~~ include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the ~~accountant~~ assurance practitioner might benefit financially from the contract. ~~The requirements and application material set out in Section 210 apply in these circumstances.~~
- Preparing or presenting financial information for the ~~accountant's~~ assurance practitioner's client or firm. ~~The requirements and application material set out in Section 220 apply in these circumstances.~~
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. ~~The requirements and application material set out in Section 250 apply in these circumstances.~~
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. ~~The requirements and application material set out in Section 270 apply in these circumstances.~~

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for an assurance practitioner ~~professional accountant~~ when undertaking an assurance ~~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 ~~assurance~~ service in accordance with ~~applicable technical and professional standards~~ standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board for that price.

Commented [IESBA228]: New paragraph arising from Applicability project

SW: separated into requirement and guidance.

Commented [IESBA229]: New paragraph arising from Applicability project

Commented [IESBA230]: 200.1, 200.2, 200.4, 200.6, 200.7, 200.8

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- 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-assurance~~ service performed by a member of the ~~accountant's-assurance practitioner'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

300.7 A1 The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 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:

Commented [IESBA231]: 200.11

- (a) The client and its operating environment; and
- (b) The firm and its operating environment.

300.7 A2 The ~~professional accountant's~~assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the ~~professional assurance~~ service.

Commented [IESBA232]: 200.10, 200.11

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:

Commented [IESBA233]: 200.3, 200.11

- (a) An audit client and whether the audit client is a public interest entity;
- (b) An assurance client that is not an audit client; or
- (c) 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, an ~~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:

Commented [IESBA234]: 200.15

- The client requires appropriate individuals 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.
- 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~~systems and procedures within the ~~accountant's~~assurance practitioner's firm and its operating environment. For example:

Commented [IESBA235]: 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 [IESBA236]: New paragraph

- (a) Impact the level of a threat; or
- (b) Affect the ~~professional accountant's~~assurance practitioner'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 ~~professional accountant~~assurance practitioner 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 [IESBA237]: New paragraph

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

Commented [SW238]: Is FMC HLP the right term in the context of this paragraph?

Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Commented [IESBA239]: 200.13

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

Commented [IESBA240]: 200.13

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- 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, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards (New Zealand)* describe certain threats that might arise during the course of performing **professional assurance** services and include examples of actions that might address threats.

Commented [IESBA241]: New paragraph

Appropriate Reviewer

300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an **assurance practitioner-professional-accountant**.

Commented [IESBA242]: New paragraph

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 so that they are adequately informed.

Commented [IESBA243]: 100.25

300.9 A1 In determining with whom to communicate, an **assurance practitioner-professional-accountant** might consider:

Commented [IESBA244]: 100.25

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

Commented [IESBA245]: 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 [IESBA246]: 100.26

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 individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant assurance practitioner has satisfied the requirement to communicate with those charged with governance.

Commented [IESBA247]: 100.26

SECTION 310

CONFLICTS OF INTEREST

Introduction

310.1 ~~Professional accountants~~ Assurance practitioners 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 [IESBA248]: New paragraph

310.2 A conflict of interest creates threats 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 [IESBA249]: 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 ~~accountant~~ assurance practitioner provides a professional service related to that matter are in conflict.

310.3 This section 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 (New Zealand)*.

Commented [IESBA250]: 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 judgment.

Commented [IESBA251]: 220.1

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

Commented [IESBA252]: 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.

- 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

General

R310.5 Before accepting a new client relationship, engagement, or business relationship, a ~~n 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 [IESBA253]: 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 a ~~n 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 ~~accountant~~ assurance practitioner being able to address threats created by the conflict of interest.

Commented [IESBA254]: 220.7

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

Commented [IESBA255]: 220.7

- The nature of the ~~professional~~ assurance 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 [IESBA256]: New paragraph

Changes in Circumstances

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 while performing an engagement.

Commented [IESBA257]: 220.6

310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a ~~n 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 [IESBA258]: 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 ~~accountant-assurance practitioner~~ has reason to believe might exist or arise due to interests and relationships of a network firm.

Commented [IESBA259]: 220.8

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

Commented [IESBA260]: 220.8

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

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 the level of the threat is not at an acceptable level.

Commented [IESBA261]: 220.3, 220.9

310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict 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. These measures include:

Commented [IESBA262]: 220.10

- 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.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

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

Commented [IESBA263]: 220.10

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, 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

General

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 [IESBA264]: 220.11

NZ R310.9.1 The assurance practitioner shall:

- (a) Disclose the nature of the conflict of interest and how any threats were addressed to clients or potential clients affected by the conflict of interest; and
- (b) Obtain the consent of the affected clients to perform the ~~professional-assurance~~ services when safeguards are applied to reduce the threat to an acceptable level.

Commented [SW265]: extant PES 1 (Revised) NZ 220.10.1

310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

Commented [IESBA266]: 220.11

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). This enables 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 ~~professional-accountant~~ assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

Commented [IESBA267]: 220.11

310.9 A3 It is generally necessary: ~~deleted and replaced by NZ R310.9.1~~

- (a) ~~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~~
- (b) ~~To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.~~

Commented [IESBA268]: 220.11

310.9 A4 If such disclosure or consent is not in writing, the ~~professional-accountant~~ assurance practitioner 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 when applicable; and
- (c) The consent obtained.

Commented [IESBA269]: 220.13

When Explicit Consent is Refused

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 accountant-assurance practitioner shall either:

Commented [IESBA270]: 220.12

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

General

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 [IESBA271]: 220.4

310.11 A1 Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

Commented [IESBA272]: 220.4

When Disclosure to Obtain Consent would Breach Confidentiality

R310.12 Deleted by the NZAuASB. Refer to NZ 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 [SW273]: NZ best practice is that such an engagement shall not be undertaken. Refer NZ R310.12

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- (c) 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.

Commented [IESBA274]: 220.14

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 [SW275]: extant PES 1 (Revised) NZ220.14

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

Commented [IESBA276]: 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. Refer to NZ R310.12

Documentation

R310.13 Deleted. Refer to NZ R310.12. In the circumstances set out in paragraph R310.12, the professional accountant shall document:

Commented [IESBA277]: 220.14

- (a) The nature of the circumstances, including the role that the accountant is to undertake;

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- (b) ~~The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and~~
- (c) ~~Why it is appropriate to accept or continue the engagement.~~

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

- 320.1 Professional accountants and assurance practitioners 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 Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA278]: New paragraph

Commented [IESBA279]: 210.1

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Requirements and Application Material

Client and Engagement Acceptance

General

- 320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.

Commented [IESBA281]: 210.1

- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:

Commented [IESBA282]: 210.2

- 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.

- 320.3 A3 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.

Commented [IESBA283]: 210.6, 210.5

- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

Commented [IESBA284]: 210.6

- 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 matter.
- 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.

320.3 A5 Examples of actions that might be safeguards to address a self-interest threat 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 [IESBA285]: 210.7

Changes in a Professional Appointment

General

R320.4 An ~~assurance practitioner~~ ~~professional accountant~~ shall determine whether there are any reasons for not accepting an engagement when the ~~accountant~~ assurance practitioner:

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

Commented [IESBA286]: 210.9

Commented [IESBA287]: 210.9

Commented [IESBA288]: 210.12, 210.11

320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest 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.

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320.4 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, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

Commented [IESBA290]: 210.12

320.4 A3 A factor that is relevant in evaluating the level of such a threat 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 inquire whether there are any reasons why the engagement should not be accepted.

Commented [IESBA291]: 210.11

320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

Commented [IESBA292]: 210.11

- Asking the existing or predecessor ~~accountant~~ assurance practitioner to provide any known 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. For example, inquiry might reveal previously undisclosed pertinent 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.

Communicating with the Existing or Predecessor ~~Accountant~~ Assurance Practitioner

320.5 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.

Commented [IESBA293]: 210.13

R320.6 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.

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Communicating with the Proposed ~~Accountant~~ Assurance Practitioner

R320.7 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:

Commented [IESBA295]: 210.14

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

320.7 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:

Commented [IESBA296]: 210.13

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

320.7 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 114.1 A1 of the Code.

Commented [IESBA297]: 210.13

Changes in Audit or Review Appointments

R320.8 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 ~~assurance practitioner's~~ ~~accountant's~~ opinion, the proposed ~~accountant~~ ~~assurance practitioner~~ needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

Commented [IESBA298]: 210.14

- (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 ~~assurance practitioner~~ ~~accountant~~ permission to discuss the client's affairs with the proposed ~~accountant~~ ~~assurance practitioner~~, the existing or predecessor ~~assurance practitioner~~ ~~accountant~~ shall disclose this fact to the proposed ~~accountant~~ ~~assurance practitioner~~.

practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and Engagement Continuance

R320.9 For a recurring client engagement, an assurance practitioner ~~professional accountant~~ shall periodically review whether to continue with the engagement.

Commented [IESBA299]: 210.5, 210.4 NOCLAR

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant-~~assurance practitioner~~ to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management or balance sheet valuations.

Commented [IESBA300]: 210.4 NOCLAR

Using the Work of an Expert

R320.10 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 [IESBA301]: 210.8

320.10 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 professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

Commented [IESBA302]: 210.8

SECTION 321

SECOND OPINIONS ~~Deleted by the NZAuASB~~

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 ~~Deleted~~.

321.2 ~~Providing a second opinion to an entity that is not an existing client might create a self-interest or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances. [Deleted]~~

Commented [SW303]: Second opinions are not an assurance engagement and are therefore not within the mandate of the NZAuASB

Commented [IESBA304]: New paragraph

Commented [IESBA305]: 230.1

Commented [IESBA306]: New paragraph

Requirements and Application Material

General

321.3 A1 A professional accountant might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence. ~~[Deleted]~~

Commented [IESBA307]: 230.1

321.3 A2 A factor that is relevant in evaluating the level of such a self-interest threat is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment. ~~[Deleted]~~

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321.3 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

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- 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. ~~[Deleted]~~

When Permission to Communicate is Not Provided

R321.4 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. ~~[Deleted]~~

Commented [IESBA310]: 230.3

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 a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA311]: New paragraph

Commented [IESBA312]: New paragraph

Application Material

Level of Fees

- 330.3 A1 The level of fees quoted might impact an assurance practitioner's professional accountant's ability to perform professional services in accordance with professional standards.
- 330.3 A2 An assurance practitioner professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant-assurance practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest 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.
- 330.3 A3 Factors that are relevant in evaluating the level of such a threat 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 regulatory body.
- 330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work performed.

Commented [IESBA313]: 240.1

Commented [SW314]: Intentionally left as professional services and professional standards as used in a generic sense.

Commented [IESBA315]: 240.1

Commented [IESBA316]: 240.2

Commented [IESBA317]: 240.2

Contingent Fees

- 330.4 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.
- 330.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis for determining the fee.

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Commented [IESBA319]: 240.3

- Disclosure to intended users of the work performed by the ~~professional accountant~~ assurance practitioner 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 regulatory body.

Commented [IESBA320]: 240.3

330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

Commented [IESBA321]: 240.4

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the ~~professional accountant~~ assurance practitioner.
- Obtaining an advance written agreement with the client on the basis of remuneration.

330.4 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 *International Independence Standards (New Zealand)*.

Commented [IESBA322]: New paragraph

Referral Fees or Commissions

NZ R330.5 ~~An~~ assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with an assurance engagement.

Commented [SW323]: extant PES 1 NZ240.9

NZ 330.5.A1.1 ~~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.

Commented [SW324]: extant PES 1 NZ240.9

330.5 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. Such referral fees or commissions include, for example:~~

Commented [IESBA325]: 240.5
240.6

- ~~A fee paid to another professional 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 professional 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 NZ R330.5 – NZ 330.5 A1.1]*

330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

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- ~~Obtaining an advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.~~
- ~~Disclosing to clients any referral fees or commission arrangements paid to, or received from, another professional accountant or third party for recommending services or products might address a self-interest threat. [Deleted by the NZAuASB. Refer to~~

NZ R330.5 – NZ 330.5 A1.1]

Purchase or Sale of a Firm

330.6 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 purposes of this section.

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SECTION 340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

[Reserved for Section 340 which forms part of the Inducements project.]

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 a self-interest or other threat to compliance with the principles of professional behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA328]: New paragraph

Commented [IESBA329]: 270.2

Commented [IESBA330]: New paragraph

Requirements and Application Material

Before Taking Custody

- R350.3 ~~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.
- R350.4 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.

Commented [IESBA331]: 270.1

Commented [IESBA332]: 270.3

- 350.4 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.

Commented [IESBA333]: 270.3

After Taking Custody

- R350.5 ~~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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SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

360.1 ~~Professional accountants~~ Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

NZ 360.3 An assurance practitioner professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the assurance practitioner accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the underlying subject matter information (for example in the client's financial statements in an audit engagement); and
- (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the underlying subject matter information client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant assurance practitioner are:

- (a) To comply with the principles of integrity and professional behaviour;
- (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

360.5 A1 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:

Commented [SW335]: Still to be updated pending agreement on compelling reason changes to align the frameworks for reporting NOCLAR for other assurance with audit/review.

Commented [IESBA336]: New paragraph

Commented [IESBA337]: New paragraph

Commented [IESBA338]: 225.1

Commented [IESBA339]: 225.5

Commented [SW340]: NZ Compelling reason amendment:
This paragraph is applicable to all assurance engagements but wording in this paragraph is specific to audit/review of financial statements. NZ wording amended to reflect the broader scope of application. Per extant PES 1 (Revised)

Note: this change is not marked as an NZ change in extant PES 1 (Revised)

Commented [IESBA341]: 225.4

Commented [IESBA342]: 225.2

- (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.

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

Commented [IESBA343]: 225.6

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

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R360.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants—assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant—assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

Commented [IESBA345]: 225.3

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

Commented [IESBA346]: 225.3

360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

Commented [IESBA347]: 225.1

360.7 A2 An assurance practitioner—professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

Commented [IESBA348]: 225.8

360.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an ~~assurance practitioner~~ ~~professional accountant~~ has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.

The ~~accountant-assurance practitioner~~ might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

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Responsibilities of Management and Those Charged with Governance

360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The client;
- (b) An individual charged with governance of the entity;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the client.

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Responsibilities of All ~~Professional Accountants~~ Assurance Practitioners

R360.9 Where an ~~assurance practitioner~~ ~~professional accountant~~ becomes aware of a matter to which this section applies, the steps that the ~~accountant-assurance practitioner~~ takes to comply with this section shall be taken on a timely basis. In taking timely steps, the ~~accountant-assurance practitioner~~ shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Commented [IESBA351]: 225.11

Audits and Reviews of Financial Statements

Obtaining an Understanding of the Matter

R360.10 If an ~~assurance practitioner~~ ~~professional accountant~~ engaged to perform an audit or review of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the ~~accountant-assurance practitioner~~ shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

Commented [IESBA352]: 225.12

360.10 A1 The ~~professional accountant~~ assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.

Commented [IESBA353]: 225.12

360.10 A2 The ~~professional accountant~~ assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the ~~accountant-assurance practitioner~~ is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-

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compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.10 A3 Depending on the nature and significance of the matter, the ~~professional-accountant~~assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

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R360.11 If the ~~professional-accountant~~assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the ~~accountant-assurance~~ practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

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360.11 A1 The purpose of the discussion is to clarify the ~~professional-accountant's~~assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

Commented [IESBA357]: 225.15

360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

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- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

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360.11 A4 The ~~professional-accountant~~assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

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R360.12 If the ~~professional-accountant~~assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the ~~accountant-assurance~~ practitioner shall discuss the matter with those charged with governance.

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Addressing the Matter

R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the ~~professional-accountant~~assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

Commented [IESBA362]: 225.18

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

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R360.14 The ~~professional accountant~~assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

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360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the ~~professional accountant~~assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

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R360.15 The ~~professional accountant~~assurance practitioner shall comply with applicable:

Commented [IESBA365]: 225.20

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under auditing and assurance standards, including those relating to:
 - Identifying and responding to non-compliance, including fraud.
 - Communicating with those charged with governance.
 - Considering the implications of the non-compliance or suspected non-compliance for the ~~auditor's~~ assurance report.

360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

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Communication with Respect to Groups

R360.16 *[Amended by the NZAuASB]*

NZ R360.16 Where an ~~an assurance practitioner~~professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the ~~accountant~~assurance practitioner shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

Commented [IESBA367]: Extant PES 1 (Revised) NZ225.21.1

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

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the ~~professional accountant~~assurance practitioner's firm or network.

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R360.17 *[Amended by the NZAuASB]*

NZ R360.17 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

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

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

R360.18 *[Amended by the NZAuASB]*

NZ R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor.

360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing work at the components.

Determining Whether Further Action Is Needed

R360.19 The ~~professional accountant~~ assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

Commented [IESBA369]: Extant PES 1 (Revised) NZ225.22.1

Commented [IESBA370]: Extant PES 1 (Revised) NZ225.22.1

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Commented [IESBA372]: 225.23

Commented [IESBA373]: 225.24

R360.20 In light of the response of management and, where applicable, those charged with governance, the ~~professional accountant~~assurance practitioner shall determine if further action is needed in the public interest.

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360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

Commented [IESBA375]: 225.26

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the client.
- Whether the ~~professional accountant~~assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

360.20 A2 Examples of circumstances that might cause the ~~professional accountant~~assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

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- The ~~accountant~~assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The ~~accountant~~assurance practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

R360.21 The ~~professional accountant~~assurance practitioner shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the ~~accountant~~assurance practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the ~~accountant~~assurance practitioner has acted appropriately in the public interest.

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360.21 A1 Further action that the ~~professional accountant~~assurance practitioner might take includes:

Commented [IESBA378]: 225.29

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the ~~professional accountant's~~assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the ~~accountant~~assurance practitioner. In such circumstances, withdrawal might be the only available course of action.

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R360.22 Where the ~~professional accountant~~assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the ~~accountant—assurance practitioner~~ shall, on request by the proposed ~~accountant—assurance practitioner~~ pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed ~~accountant—assurance practitioner~~. The predecessor ~~accountant—assurance practitioner~~ shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the predecessor ~~accountant—assurance practitioner~~ permission to discuss the client's affairs with the proposed ~~accountant—assurance practitioner~~, unless prohibited by law or regulation.

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360.22 A1 The facts and other information to be provided are those that, in the predecessor ~~accountant's assurance practitioner's~~ opinion, the proposed ~~accountant—assurance practitioner~~ needs to be aware of before deciding whether to accept the audit or review appointment. Section 320 addresses communications from proposed ~~accountant—assurance practitioners~~.

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R360.23 If the proposed ~~accountant—assurance practitioner~~ is unable to communicate with the predecessor ~~accountant—assurance practitioner~~, the proposed ~~accountant—assurance practitioner~~ shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

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360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

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360.24 A1 As assessment of the matter might involve complex analysis and judgments, the ~~professional accountant—assurance practitioner~~ might consider:

Commented [IESBA384]: 225.33

- Consulting internally.
- Obtaining legal advice to understand the ~~accountant's—assurance practitioner's~~ options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

Commented [IESBA385]: 225.33

360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the ~~professional accountant—assurance practitioner~~ might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

Commented [IESBA 386]: 225.34

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.

- The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- It is likely that the entity would sell products that are harmful to public health or safety.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

Commented [IESBA387]: 225.34

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the ~~professional accountant~~assurance practitioner or other individuals.

R360.26 If the ~~assurance practitioner~~professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the ~~assurance practitioner~~accountant shall act in good faith and exercise caution when making statements and assertions. The ~~assurance practitioner~~accountant shall also consider whether it is appropriate to inform the client of the ~~assurance practitioner~~accountant's intentions before disclosing the matter.

Commented [IESBA388]: 225.35

Imminent Breach

R360.27 In exceptional circumstances, the ~~assurance practitioner~~professional accountant might become aware of actual or intended conduct that the ~~assurance practitioner~~accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the ~~assurance practitioner~~accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Commented [IESBA389]: 225.36

Documentation

R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the ~~assurance practitioner~~professional accountant shall document:

Commented [IESBA 390]: 225.37

- How management and, where applicable, those charged with governance have responded to the matter.

- The courses of action the ~~assurance practitioner~~ considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the ~~assurance practitioner~~ is satisfied that the ~~assurance practitioner~~ has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing and assurance standards. ISAs, for example, require an ~~assurance practitioner~~ performing an audit of financial statements to:

Commented [IESBA391]: 225.38

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional Services Other than Audits and Reviews of Financial Statements

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

R360.29 If an ~~assurance practitioner~~ engaged to provide a professional service other than an audit or review of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the ~~assurance practitioner~~ shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

Commented [IESBA392]: 225.39

360.29 A1 The ~~assurance practitioner~~ is expected to apply knowledge and expertise, and exercise professional judgment. However, the ~~assurance practitioner~~ is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the ~~assurance practitioner~~ was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Commented [IESBA393]: 225.40

360.29 A2 Depending on the nature and significance of the matter, the ~~assurance practitioner~~ might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

Commented [IESBA394]: 225.40

R360.30 If the ~~assurance practitioner~~ identifies or suspects that non-compliance has occurred or might occur, the ~~assurance practitioner~~ shall discuss the matter with the appropriate level of management. If the ~~assurance practitioner~~ has access to those charged with governance, the ~~assurance practitioner~~ shall also discuss the matter with them where appropriate.

Commented [IESBA395]: 225.41

360.30 A1 The purpose of the discussion is to clarify the ~~assurance practitioner's professional accountant's~~ understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

Commented [IESBA396]: 225.42

360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

Commented [IESBA397]: 225.43

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor or Reviewer

R360.31 If the ~~assurance practitioner professional accountant~~ is performing a non-audit service for:

Commented [IESBA398]: 225.44

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

the ~~assurance practitioner accountant~~ shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit or review engagement partner.

R360.32 If the ~~professional accountant assurance practitioner~~ is performing a non-audit service for:

Commented [IESBA399]: 225.45

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

the ~~assurance practitioner accountant~~ shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit or review engagement partner.

R360.33 If the ~~assurance practitioner professional accountant~~ is performing a non-audit service for a client that is not:

Commented [IESBA400]: 225.46

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

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

Relevant Factors to Consider

360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

Commented [IESBA401]: 225.47

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

Purpose of Communication

360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.

Commented [IESBA402]: 225.48

Considering Whether Further Action Is Needed

R360.36 The ~~assurance practitioner~~professional accountant shall also consider whether further action is needed in the public interest.

Commented [IESBA403]: 225.49

360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

Commented [IESBA404]: 225.50

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

360.36 A2 Further action by the ~~assurance practitioner~~professional accountant might include:

Commented [IESBA405]: 225.51

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

Commented [IESBA406]: 225.52

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

R360.37 If the ~~assurance practitioner professional accountant~~ determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the ~~assurance practitioner accountant~~ shall act in good faith and exercise caution when making statements and assertions. The ~~assurance practitioner accountant~~ shall also consider whether it is appropriate to inform the client of the ~~assurance practitioner accountant~~'s intentions before disclosing the matter.

Commented [IESBA407]: 225.53

Imminent Breach

R360.38 In exceptional circumstances, the ~~assurance practitioner professional accountant~~ might become aware of actual or intended conduct that the ~~assurance practitioner accountant~~ has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the ~~assurance practitioner accountant~~ shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Commented [IESBA408]: 225.54

Seeking Advice

360.39 A1 The ~~assurance practitioner professional accountant~~ might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Commented [IESBA409]: 225.55

Documentation

360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the ~~assurance practitioner professional accountant~~ is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.

Commented [IESBA410]: 225.56

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Based on the approved restructured international code

- The courses of action the assurance practitioner~~accountant~~ considered, the judgements made and the decisions that were taken.
- How the assurance practitioner~~accountant~~ is satisfied that the assurance practitioner~~accountant~~ has fulfilled the responsibility set out in paragraph R360.36.

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INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) (PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

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

Commented [IESBA411]: 290.4

400.2 ~~This Part applies to both audit and review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.~~Deleted by the NZAuASB/

Commented [IESBA412]: 290.3

NZ 400.2.1 ~~This Part applies to 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 [SW413]: extant PES 1 (Revised) NZ 290.1.1

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

Commented [IESBA414]: New paragraph

400.4 ~~ISQC 1 Professional and Ethical Standard 3 (Amended), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements.~~ 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 (including network firm personnel), maintain independence where required by relevant ethics requirements. International Standards on Auditing (New Zealand), International Standards on Review Engagements (New Zealand) and New Zealand Standards on Review Engagements 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 this Part 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 ISQC 1 Professional and Ethical Standard 3 (Amended). In addition, an individual ~~professional accountant~~assurance practitioner remains responsible for compliance with any provisions that apply to that ~~accountant’s~~assurance practitioner’s activities, interests or relationships.

Commented [IESBA415]: 290.12

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

Commented [IESBA416]: 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 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 or review team member's, integrity, objectivity or professional skepticism has been compromised.

In this Part, 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. This Part 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 [IESBA417]: New paragraph

400.7 This Part describes:

Commented [IESBA418]: 290.8, 290.9

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part 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. Factors to be considered include:

Commented [IESBA419]: 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.

Reports that Include a Restriction on Use and Distribution

400.9 An audit report 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 this Part may be modified as provided in Section 800.

Commented [IESBA420]: 290.2

Assurance Engagements other than Audit and Review Engagements

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

Commented [IESBA421]: 290.1

Requirements and Application Material

General

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

Commented [IESBA422]: 280.2, 290.4, 290.7

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 [IESBA423]: 290.4, 290.7

NZ R400.12.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Commented [SW424]: extant PES 1 (Revised) NZ 290.11.1

[Paragraphs 400.13 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit or review client that is a listed-FMC reporting 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 this Part 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.

Commented [IESBA425]: 290.27

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

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

Commented [IESBA426]: 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 the audit or review. The engagement period ends when the audit report 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 [IESBA427]: 290.30

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 [IESBA428]: 290.31

Commented [SW429]: A conclusion is expressed on a review engagement.

- (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.

400.31 A1 Threats to independence are created 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 the audit or review, and the service would not be permitted during the engagement period.

Commented [IESBA430]: 290.32

400.31 A2 Examples of actions that might be safeguards to address such threats include:

Commented [IESBA431]: 290.32

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer review the audit or review and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

[Paragraphs 400.32 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

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

Commented [IESBA432]: New paragraph

400.40 A2 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:

Commented [IESBA433]: 290.28

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

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

[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. It does not depend on whether the firms and entities are legally separate and distinct.

Commented [IESBA434]: 290.14

R400.51 A network firm shall be independent of the audit or review clients of the other firms within the network as required by this Part.

Commented [IESBA435]: 290.13

400.51 A1 The independence requirements in this Part 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.

Commented [IESBA436]: 290.13

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

Commented [IESBA437]: 290.15

- (a) Exercise professional judgement to determine whether a network is created by such a larger structure;
- (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. 400.53 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).

Commented [IESBA438]: 290.16

Commented [IESBA439]: 290.17

Commented [IESBA440]: 290.18

Commented [IESBA441]: 290.19

Commented [IESBA442]: 290.20

Commented [IESBA443]: 290.23

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 described 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.

Commented [IESBA444]: 290.14

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 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)).

Commented [IESBA445]: 290.16

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

Commented [IESBA446]: 290.17

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

Commented [IESBA447]: 290.18

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)).

Commented [IESBA448]: 290.19

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)).

Commented [IESBA449]: 290.20

400.53 A7 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 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)).

Commented [IESBA450]: 290.21

400.53 A8 Professional resources include:

Commented [IESBA451]: 290.23

- 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)).

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

Commented [IESBA452]: 290.24

- 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 endeavor.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where 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. R400.53(f)).

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 [IESBA453]: 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.

Commented [IESBA454]: 290.22

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

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 [IESBA455]: 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 required 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 judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

Commented [IESBA456]: 290.29

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

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,

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- (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 threat, 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:

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- (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.

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400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

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- 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 auditor, the firm shall do so only if:

- (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 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, 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.

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:

- (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 no later than the date that the audit report or review report is issued.

If Objectivity Remains Compromised

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 a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

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Commented [SW463]: Should the term auditor be replaced with assurance practitioner? Part 4A is applicable to both audit and review engagements.

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Commented [SW466]: Should the term auditor be replaced with assurance practitioner? Part 4A is applicable to both audit and review engagements.

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Commented [SW468]: Should the term auditor be replaced with assurance practitioner? Part 4A is applicable to both audit and review engagements.

Documentation

R400.76 The firm shall document:

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- (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 a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Engagements

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 or regulatory body 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 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.

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In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that

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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 this Part 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.

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

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

R400.81 If the firm determines that action cannot be taken 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.

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

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- (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:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) 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:

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- (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 ir 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:

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

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R400.89 If the firm continues with the audit or review engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for 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.

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410.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

Fees – Relative Size

All Audit Clients

NZ R410.3 As required by R120.10, where the threat cannot be eliminated or safeguards, where available and capable of being applied, cannot reduce the threat to an acceptable level, the firm shall decline or withdraw from the engagement.

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410.3 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.

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

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- 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.

410.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.

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410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

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410.3 A5 Factors that are relevant in evaluating the level of such threats 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.

410.3 A6 Examples of actions that might be safeguards to address such self-interest or intimidation threats 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 appropriate reviewer who did not take part in the audit or review engagement review the work.

Audit Clients that are Public Interest Entities

R410.4 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 or conclusion 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 ~~m 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 ~~n 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").

R410.5 When the total fees described in paragraph R410.4 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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R410.6 If the fees described in paragraph R410.4 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 R410.4; and
- (b) Comply with paragraphs R410.4(b) and R410.5.

Fees – Overdue

410.7 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 apply to situations where such unpaid fees exist.

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410.7 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

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- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit or review engagement review the work performed.

R410.8 When a significant part of fees due from an audit or review client remains unpaid for a long time, the firm shall determine:

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- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit or review engagement.

Contingent Fees

410.9 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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R410.10 A firm shall not charge directly or indirectly a contingent fee for an audit or review engagement.

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R410.11 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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- (a) 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;
- (b) 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
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the financial statements.

410.12 A1 Paragraphs R410.10 and R410.11 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit or review client. Even if a contingent fee arrangement is 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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410.12 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

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410.12 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm.
- Obtaining an advance written agreement with the client on the basis of remuneration.

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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 a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 411.3 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.
- 411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
 - Removing that individual from the audit or review team.
- 411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit or review team member.
- R411.4** 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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DRAFT RESTRUCTURED PES 1
Based on the approved restructured international code

SECTION 420

GIFTS AND HOSPITALITY

[Reserved for Section 420 which forms part of the Inducements project.]

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.
- 430.2 When litigation with an audit or review client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

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Application Material

General

- 430.3 A1 The relationship between client management and audit or review team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an audit or review client and the firm, a network firm or an audit or review team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior audit or review engagement.
- 430.3 A3 If the litigation involves an audit or review team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the audit or review team.
- 430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

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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.

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510.2 Holding a financial interest in an audit or review client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

510.3 A1 A financial interest might be held directly or 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 ability to influence its investment decisions, the Code defines that financial interest to be indirect.

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510.3 A2 This section 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.

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510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit or review client include:

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- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests Held by the Firm, a Network Firm, Audit or Review Team Members and Others

R510.4 Subject to paragraph R510.5, 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; or
- (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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510.4 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 audit or review team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.5 As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(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 threat 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.

Financial Interests in an Entity Controlling an Audit or Review Client

R510.6 When an entity has a controlling interest in an audit or review client and the 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

R510.7 Paragraph R510.4 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

R510.8 (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 R510.8(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

R510.9 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, then:

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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 threat created.

Financial Interests – Other Circumstances

Immediate Family

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit *or review* 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 *or review* client is also known to have a financial interest in that entity.

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

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- The role of the individual on the audit *or review* 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.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit *or review* team member with the financial interest from the audit *or review* team.

Commented [IESBA541]: 290.113

510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit *or review* team member.

Commented [IESBA542]: 290.113

Close Family

510.10 A5 A self-interest threat might be created if an audit or review team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit or review client.

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510.10 A6 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.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

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- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose 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.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit or review team member.

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Other Individuals

510.10 A9 A self-interest threat might be created if an audit or review team member knows that a financial interest in the audit or review client is held by individuals such as:

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- 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 R510.4, or their immediate family members.
- Individuals with a close personal relationship with an audit or review team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

Commented [IESBA548]: 290.115

- The firm's organizational, operating and reporting structure.
- The nature of the relationship between the individual and the audit or review team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit or review team member with the personal relationship from the audit or review team.

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510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat 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 appropriate reviewer review the work of the audit or review team member.

Retirement Benefit Plan of a Firm or Network Firm

510.10 A13 A self-interest threat might be created 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.

Commented [IESBA551]: 290.107

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 with an audit or review client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA552]: New paragraph

Commented [IESBA553]: 290.102

Requirements and Application Material

General

- 511.3 A1 This section 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

- R511.4 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

- R511.5 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.
- 511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 511.5 A2 Even if a firm or network firm receives a loan from an audit or review client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the audit or review client or firm receiving the loan.
- 511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an audit or review team member, from a network firm that is not a beneficiary of the loan.

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Commented [IESBA559]: 290.118

Deposits or Brokerage Accounts

R511.6 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

R511.7 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 with an audit or review client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA562]: New paragraph

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Requirements and Application Material

General

- 520.3 A1 This section 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.
- 520.3 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, Audit or Review Team Member or Immediate Family Business Relationships

- R520.4 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 any 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.
- 520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit or review client or its management and the immediate family of an audit or review team member.

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Common Interests in Closely-Held Entities

- R520.5 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

520.6 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.

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520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

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- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit or review team.

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 with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 521.3 A1 A self-interest, familiarity or intimidation threat might be 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.
- 521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the audit or review team.
 - 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 Team Member

- 521.4 A1 A self-interest, familiarity or intimidation threat is 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.
- 521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the audit or review team member.
- 521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit or review team.
- 521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat 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.

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Commented [IESBA577]: 290.128

Commented [IESBA578]: 290.128

R521.5 An individual shall not participate as an audit or review team member when any of that individual's immediate family:

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- (a) Is a director or officer of the audit or review client;
- (b) 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
- (c) Was in such position during any period covered by the engagement or the financial statements.

Close Family of an Audit or Review Team Member

521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an audit or review team member is:

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- (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.

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

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- 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.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit or review team.

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521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat 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.

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Other Close Relationships of an Audit Team Member

R521.7 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:

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- (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.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

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- 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.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit or review team.

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521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat 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.

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Relationships of Partners and Employees of the Firm

R521.8 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:

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- (a) A partner or employee of the firm or network 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.

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

Commented [IESBA589]: 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 degree of 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.

521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

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- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit or review engagement.
- Having an appropriate reviewer 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 If an audit or review team member has recently served as a director or officer, or employee of the audit or review client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA591]: New paragraph

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Requirements and Application Material

Service During Period Covered by the Audit or Review Report

- R522.3** The audit or review team shall not include an individual who, during the period covered by the audit or review report:
- (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.

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Service Prior to Period Covered by the Audit or Review Report

- 522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit or review report, an audit or review team member:
- (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.

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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.

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

- 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.

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- 522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the audit or review team member.

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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.
- 523.2 Serving as a director or officer of an audit or review client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

Service as Director or Officer

- R523.3** A partner or employee of the firm or a network firm shall not serve as a director or officer of an audit client of the firm. *[Amended by the NZAuASB. Refer to NZ R523.3]*
- NZ R523.3** A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or officer-receiver of an audit or review client of the firm. [extant NZ290.144]

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Commented [IESBA600]: extant PES 1 (Revised) NZ 290.144

Service as Company Secretary

- R523.4** 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:
- (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.
- 523.4 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. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit or review client. (More information on providing non-assurance services to an audit client is set out in Section 600, *Provision of Non-assurance Services to an Audit or Review Client*.)

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SECTION 524

EMPLOYMENT WITH AN AUDIT OR REVIEW 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 with an audit or review client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

All Audit or Review Clients

- 524.3 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:
- 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.

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Former Partner or Audit or Review Team Member Restrictions

- R524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:
- (a) A former partner who has joined an audit or review client of the firm; or
 - (b) A former audit or review team member who has joined 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.
- A significant connection remains between the firm or a network firm and the individual, unless:
- (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.

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Commented [IESBA607]: 290.133

- 524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

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524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit or review client of the firm.

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524.4 A3 Factors that are relevant in evaluating the level of such threats include:

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- The position the individual has taken at the client.
- 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.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

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- Modifying the audit or review plan.
- Assigning to the audit or review team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former audit or review team member.

Audit or Review Team Members Entering Employment with a Client

R524.5 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.

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524.5 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.

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524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit or review team.

Commented [IESBA614]: 290.136

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

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Audit or Review Clients that are Public Interest Entities

Key Audit or Key Assurance Partners

R524.6 Subject to paragraph R524.8, 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:

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- (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, subsequent to the individual ceasing to be a key audit or key assurance partner:

- (i) The audit or review client has issued audited or reviewed 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.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

R524.7 Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit or review client that is a public interest entity as:

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- (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 Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Business Combinations

R524.8 As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

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- (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 as applicable;
- (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 former partner's position held with the audit or review client with those charged with governance.

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.
- 525.2 The loan of personnel to an audit or review client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [IESBA619]: New paragraph

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Requirements and Application Material

General

525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit or review client include:

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- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
- Not including the loaned personnel as an audit or review team member might address a familiarity or advocacy threat.
- Not giving the loaned personnel audit or review responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.

525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit or review client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.

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R525.4 A firm or network firm shall not loan personnel to an audit or review client unless:

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- (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.

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

- 540.1 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.
- 540.2 When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit Clients

- 540.3 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with:
- The audit client and its operations;
 - The audit client's senior management; or
 - The financial statements on which the firm will express an opinion or a conclusion or the financial information which forms the basis of the financial statements.
- 540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.
- 540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

(a) In relation to the individual:

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

Commented [SW624]: Not yet updated, pending Board discussion on compelling reason changes.

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Commented [IESBA629]: 290.149

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

(b) In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

Commented [IESBA630]: 290.150

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement over a long period of time would be rotating the individual off the audit team.

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540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

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- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

Commented [IESBA633]: 290.152

- (a) Be a member of the engagement team for the audit engagement;
- (b) Provide quality control for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period):

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

(c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

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540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

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R540.7 As an exception to paragraph R540.5, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

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540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

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R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

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R540.9 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 might not be possible. As an exception to paragraph R540.5, if an independent regulatory body 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 exemption. This is provided that the independent regulatory body 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.

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Other Considerations Relating to the Time-on Period

R540.10 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.

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540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

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Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

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R540.12 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

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R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

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Service in a combination of key audit partner roles

R540.14 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

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R540.15 Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall be three consecutive years.

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R540.16 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall:

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(a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or

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

R540.17 If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

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Service at a Prior Firm

R540.18 In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

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Shorter Cooling-off Period Established by Law or Regulation

R540.19 Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

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Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

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

540.20 A1 The provisions of paragraph R540.20 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

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SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT OR REVIEW CLIENT

Introduction

- 600.1 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.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit or review clients, consistent with their skills and expertise. Providing non-assurance services to audit or review clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit or review clients. The subsections that follow set out specific requirements and application material relevant when a firm or network firm provides certain non-assurance services to audit or review clients and indicate the types of threats that might be created as a result. Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit or review client in certain circumstances because the threats created cannot be addressed by applying safeguards.

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Requirements and Application Material

General

- R600.4 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit or review client, the firm shall determine whether providing such a service might create a threat to independence.
- 600.4 A1 The requirements and application material in this section assist the firm in analyzing certain types of non-assurance services and the related threats that might be created if a firm or network firm provides non-assurance services to an audit or review client.
- 600.4 A2 New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit or review client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit or review client.

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Evaluating Threats

- 600.5 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit or review client include:
- The nature, scope and purpose of the service.
 - The degree of reliance that will be placed on the outcome of the service as part of the audit or review.
 - The legal and regulatory environment in which the service is provided.

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- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion or a conclusion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent of the client's involvement in determining significant matters of judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion or a conclusion.
 - Internal controls over financial reporting.
- Whether the client is a public interest entity. 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 a threat.

600.5 A2 Subsections 601 to 610 include examples of additional factors that are relevant in evaluating the level of threats created by providing the non-assurance services set out in those subsections.

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Materiality in Relation to Financial Statements

600.5 A3 Subsections 601 to 610 refer to materiality in relation to an audit or review client's financial statements. The concept of materiality in relation to an audit is addressed in ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE (NZ) 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

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Multiple Non-assurance Services Provided to the Same Audit or Review Client

600.5 A4 A firm or network firm might provide multiple non-assurance services to an audit or review client. In these circumstances the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

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Addressing Threats

600.6 A1 Subsections 601 to 610 include examples of actions, including safeguards, that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level. Those examples are not exhaustive.

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600.6 A2 Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit or review client in certain circumstances because the threats created cannot be addressed by applying safeguards.

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600.6 A3 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to audit or review clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a non-assurance service to an audit or review client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit or review engagement.

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Prohibition on Assuming Management Responsibilities

R600.7 A firm or a network firm shall not assume a management responsibility for an audit or review client.

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600.7 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

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600.7 A2 Providing a non-assurance service to an audit or review client creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

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600.7 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

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- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

600.7 A4 Providing advice and recommendations to assist the management of an audit or review client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para.

Commented [IESBA671]: 290.161

R600.7 to 600.7 A3).

R600.8 To avoid assuming a management responsibility when providing any non-assurance service to an audit or review client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the services; and

(ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

(b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Providing Non-Assurance Services to an Audit or Review Client that Later Becomes a Public Interest Entity

R600.9 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit or review client compromises the firm's independence when the client becomes a public interest entity unless:

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(a) The previous non-assurance service complies with the provisions of this section that relate to audit or review clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for audit or review clients that are public interest entities are ended before, or as soon as practicable after, the client becomes a public interest entity; and

(c) The firm addresses threats that are created that are not at an acceptable level.

Considerations for Certain Related Entities

R600.10 This section includes requirements that prohibit firms and network firms from assuming management responsibilities or providing certain non-assurance services to audit or review clients. As an exception to those requirements, a firm or network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion or a conclusion:

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(a) An entity that has direct or indirect control over the client;

(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; or

- (c) An entity which is under common control with the client, provided that all of the following conditions are met:
- (i) The firm or a network firm does not express an opinion or a conclusion on the financial statements of the related entity;
 - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion or a conclusion;
 - (iii) The services do not create a self-review threat because the results of the services will not be subject to audit or review procedures; and
 - (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

- 601.1 Providing accounting and bookkeeping services to an audit or review client might create a self-review threat.
- 601.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an audit or review client with accounting and bookkeeping services. This subsection includes requirements that prohibit firms and network firms from providing certain accounting and bookkeeping services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit or Review Clients

- 601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:
- Preparing accounting records and financial statements.
 - Recording transactions.
 - Payroll services.
- 601.3 A2 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:
- Determining accounting policies and the accounting treatment in accordance with those policies.
 - Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
 - Purchase orders.
 - Payroll time records.

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- Customer orders.

- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

601.3 A3 The audit or review process necessitates dialogue between the firm and the management of the audit or review client, which might involve:

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- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit or review process and do not usually create threats as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:

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- Complying with group accounting policies.
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.

Accounting and Bookkeeping Services that are Routine or Mechanical

601.4 A1 Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment. Some examples of these services are:

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- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

Audit or Review Clients that are Not Public Interest Entities

R601.5 A firm or a network firm shall not provide to an audit or review client that is not a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or a conclusion or financial information which forms the basis of such financial statements, unless:

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- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.

601.5 A1 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit or review client include:

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- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

Audit or Review Clients that are Public Interest Entities

R601.6 Subject to paragraph R601.7, a firm or a network firm shall not provide to an audit or review client that is a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or a conclusion or financial information which forms the basis of such financial statements.

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R601.7 As an exception to paragraph R601.6, a firm or network firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit or review client that is a public interest entity if the personnel providing the services are not audit or review team members and:

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- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion or a conclusion; or
- (b) The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 Providing administrative services to an audit or review client does not usually create a threat.

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602.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing administrative services.

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Application Material

All Audit or Review Clients

602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within

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the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

602.3 A2 Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit or review client of those dates.

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SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 Providing valuation services to an audit or review client might create a self-review or advocacy threat.

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603.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing valuation services to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain valuation services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

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Requirements and Application Material

All Audit or Review Clients

603.3 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

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603.3 A2 If a firm or network firm is requested to perform a valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.9 A1 to 604.9 A5, relating to such services, applies.

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Commented [IESBA694]: 290.174

603.3 A3 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit or review client include:

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- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent and clarity of the disclosures related to the valuation in the financial statements.

- The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.

603.3 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

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Audit or Review Clients that are Not Public Interest Entities

R603.4 A firm or a network firm shall not provide a valuation service to an audit or review client that is not a public interest entity if:

- (a) The valuation involves a significant degree of subjectivity; and
- (b) The valuation will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

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603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

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Audit or Review Clients that are Public Interest Entities

R603.5 A firm or a network firm shall not provide a valuation service to an audit or review client that is a public interest entity if the valuation service would have a material effect, individually or in the aggregate, on the financial statements on which the firm will express an opinion or a conclusion.

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SUBSECTION 604 – TAX SERVICES

Introduction

604.1 Providing tax services to an audit or review client might create a self-review or advocacy threat.

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604.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a tax service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain tax services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

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Requirements and Application Material

All Audit or Review Clients

604.3 A1 Tax services comprise a broad range of services, including activities such as:

- Tax return preparation.

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- Tax calculations for the purpose of preparing the accounting entries.
- Tax planning and other tax advisory services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.

604.3 A2 Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit or review client include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

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Tax Return Preparation

All Audit or Review Clients

604.4 A1 Providing tax return preparation services does not usually create a threat.

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604.4 A2 Tax return preparation services involve:

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- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions and responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

604.4 A3 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate.

Commented [IESBA706]: 290.179

Tax Calculations for the Purpose of Preparing Accounting Entries

All Audit or Review Clients

604.5 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit or review client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.

Commented [IESBA707]: 290.180

604.5 A2 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing such calculations for an audit or review client is whether the calculation might have a material effect on the financial statements on which the firm will

Commented [IESBA708]: 290.180

express an opinion or a conclusion.

Audit or Review Clients that are Not Public Interest Entities

604.5 A3 Examples of actions that might be safeguards to address such a self-review threat when the audit or review client is not a public interest entity include:

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

Commented [IESBA709]: 290.180

Audit or Review Clients that are Public Interest Entities

R604.6 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit or review client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion or a conclusion.

Commented [IESBA710]: 290.181

604.6 A1 The examples of actions that might be safeguards in paragraph 604.5 A3 to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit or review client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion or a conclusion.

Commented [IESBA711]: 290.180

Tax Planning and Other Tax Advisory Services

All Audit or Review Clients

604.7 A1 Providing tax planning and other tax advisory services might create a self-review or advocacy threat.

Commented [IESBA712]: 290.183

604.7 A2 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

Commented [IESBA713]: 290.182

604.7 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax planning and other tax advisory services to audit or review clients include:

Commented [IESBA714]: 290.183

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, whether the advice provided as a result of the tax planning and other tax advisory services:

- Is clearly supported by a tax authority or other precedent.
- Is an established practice.
- Has a basis in tax law that is likely to prevail.

- The extent to which the outcome of the tax advice will have a material effect on the financial statements.

- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

604.7 A4 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Commented [IESBA715]: 290.184

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.8 A firm or a network firm shall not provide tax planning and other tax advisory services to an audit or review client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

Commented [IESBA716]: 290.185

- (a) The audit or review team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

Tax Services Involving Valuations

All Audit or Review Clients

604.9 A1 Providing tax valuation services to an audit or review client might create a self-review or advocacy threat.

Commented [IESBA717]: New paragraph

604.9 A2 A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

Commented [IESBA718]: 290.186

604.9 A3 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in evaluating the level of self-review or advocacy threats created by providing those services to an audit client:

Commented [IESBA719]: 290.186

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.9 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Commented [IESBA720]: 290.186

604.9 A5 A firm or network firm might also perform a tax valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.

Commented [IESBA721]: 290.186

Assistance in the Resolution of Tax Disputes

All Audit or Review Clients

604.10 A1 Providing assistance in the resolution of tax disputes to an audit or review client might create a self-review or advocacy threat.

Commented [IESBA722]: 290.187

604.10 A2 A tax dispute might reach a point when the tax authorities have notified an audit or review client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court.

Commented [IESBA723]: 290.187

604.10 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit or review client in the resolution of tax disputes include:

Commented [IESBA724]: 290.187

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.
- Whether the advice that was provided is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

604.10 A4 Examples of actions that might be safeguards to address threats include:

Commented [IESBA725]: 290.187

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

Resolution of Tax Matters Involving Acting as An Advocate

R604.11 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit or review client if:

Commented [IESBA726]: 290.188

- (a) The services involve acting as an advocate for the audit or review client before a public tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion or a conclusion.

604.11 A1 Paragraph R604.11 does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:

Commented [IESBA727]: 290.189

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.11 A2 What constitutes a "public tribunal or court" depends on how tax proceedings are heard in the particular jurisdiction.

Commented [IESBA728]: 290.188

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 Providing internal audit services to an audit or review client might create a self-review threat.

Commented [IESBA729]: 290.191

605.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an internal audit service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain internal audit services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Commented [IESBA730]: New paragraph

Requirements and Application Material

All Audit Clients

605.3 A1 Internal audit services involve assisting the audit or review client in the performance of its internal audit activities. Internal audit activities might include:

Commented [IESBA731]: 290.190

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.

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- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

605.3 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance.

Commented [IESBA732]: 290.190

R605.4 When providing an internal audit service to an audit or review client, the firm shall be satisfied that:

Commented [I733]: 290.193

- (a) The client designates an appropriate and competent resource, preferably within senior management, to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control.
- (b) The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.4 A1 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.

Commented [IESBA734]: 290.193

Commented [IESBA735]: 290.191

605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:

Commented [IESBA736]: 290.192

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the

matters noted above.

605.4 A3 When a firm uses the work of an internal audit function in an audit engagement, ISAs (NZ) require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or network firm accepts an engagement to provide internal audit services to an audit or review client, the results of those services might be used in conducting the external audit or review. This creates a self-review threat because it is possible that the audit or review team will use the results of the internal audit service for purposes of the audit or review engagement without:

Commented [IESBA737]: 290.194

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skcepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A4 Factors that are relevant in evaluating the level of such a self-review threat include:

Commented [IESBA738]: 290.194

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit or review team will place on the work of the internal audit service, including in the course of an external audit.

605.4 A5 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit or review team members to perform the service.

Commented [IESBA739]: 290.194

Audit or Review Clients that are Public Interest Entities

R605.5 A firm or a network firm shall not provide internal audit services to an audit or review client that is a public interest entity, if the services relate to:

Commented [IESBA740]: 290.195

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, individually or in the aggregate, material to the client's accounting records or financial statements on which the firm will express an opinion or a conclusion; or
- (c) Amounts or disclosures that are, individually or in the aggregate, material to the financial statements on which the firm will express an opinion or a conclusion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 Providing information technology (IT) systems services to an audit or review client might create a self-review threat.

Commented [IESBA741]: 290.196

606.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an IT systems service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Commented [IESBA742]: New paragraph

Requirements and Application Material

All Audit or Review Clients

606.3 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit or review client's accounting records or the internal control over financial reporting or financial statements.

Commented [IESBA743]: 290.196

606.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following IT systems services to an audit or review client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant; and
- (d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

Commented [IESBA744]: 290.197

R606.4 When providing IT systems services to an audit or review client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Commented [IESBA745]: 290.198, 290.199

606.4 A1 Factors that are relevant in evaluating the level of a self-review threat created by providing IT systems services to an audit or review client include:

Commented [IESBA746]: New paragraph

- The nature of the service.
- The nature of IT systems and the extent to which they impact or interact with the client's accounting records or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit or review.

606.4 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit or review team members to perform the service.

Commented [IESBA747]: 290.200

Audit or Review Clients that are Public Interest Entities

R606.5 A firm or a network firm shall not provide IT systems services to an audit or review client that is a public interest entity if the services involve designing or implementing IT systems that:

Commented [IESBA748]: 290.201

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion or a conclusion.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 Providing certain litigation support services to an audit or review client might create a self-review or advocacy threat.

Commented [IESBA749]: 290.202

607.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a litigation support service to an audit or review client.

Commented [IESBA750]: New paragraph

Application Material

All Audit or Review Clients

607.3 A1 Litigation support services might include activities such as:

Commented [IESBA751]: 290.202

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.

607.3 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit or review client include:

Commented [IESBA752]: New paragraph

- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

607.3 A3 An example of an action that might be a safeguard to address such a self-review or advocacy

Commented [IESBA753]: 290.205

threat is using a professional who was not an audit or review team member to perform the service.

607.3 A4 If a firm or a network firm provides a litigation support service to an audit or review client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion or a conclusion, the requirements and application material set out in Subsection 603 related to valuation services apply.

Commented [IESBA754]: 290.203

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 Providing legal services to an audit or review client might create a self-review or advocacy threat.

Commented [IESBA755]: 290.204

608.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a legal service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain legal services to audit or review clients in some circumstances because the threats cannot be addressed by applying safeguards.

Commented [IESBA756]: New paragraph

Requirements and Application Material

All Audit or Review Clients

608.3 A1 Legal services are defined as any services for which the individual providing the services must either:

Commented [IESBA757]: 290.204

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

Acting in an Advisory Role

608.4 A1 Depending on the jurisdiction, legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit or review clients, such as:

Commented [IESBA758]: 290.204

- Contract support.
- Supporting an audit or review client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit or review client's internal legal department.
- Legal due diligence and restructuring.

608.4 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing legal advisory services to an audit or review client include:

Commented [IESBA759]: 290.205

- The materiality of the specific matter in relation to the client's financial statements.

- The complexity of the legal matter and the degree of judgement necessary to provide the service.

608.4 A3 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

Commented [IESBA760]: 290.205

Acting as General Counsel

R608.5 A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit or review client.

Commented [IESBA761]: 290.208

608.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

Commented [IESBA762]: 290.208

Acting in an Advocacy Role

R608.6 A firm or a network firm shall not act in an advocacy role for an audit or review client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion or a conclusion.

Commented [IESBA763]: 290.206

608.6 A1 Examples of actions that might be safeguards to address a self-review threat created when acting in an advocacy role for an audit or review client when the amounts involved are not material to the financial statements on which the firm will express an opinion or a conclusion include:

Commented [IESBA764]: 290.207

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 Providing recruiting services to an audit or review client might create a self-interest, familiarity or intimidation threat.

Commented [IESBA765]: 290.209

609.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a recruiting service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain types of recruiting services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Commented [IESBA766]: New paragraph

Requirements and Application Material

All Audit or Review Clients

609.3 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Commented [IESBA767]: New paragraph

609.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

Commented [IESBA768]: 290.209

R609.4 When a firm or network firm provides recruiting services to an audit or review client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Commented [IESBA769]: New paragraph

609.5 A1 Factors that are relevant in evaluating the level of self-interest, familiarity or intimidation threats created by providing recruiting services to an audit or review client include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

Commented [IESBA770]: 290.209

609.5 A2 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit or review team members to perform the service.

Commented [IESBA771]: New paragraph

Recruiting Services that are Prohibited

R609.6 When providing recruiting services to an audit or review client, the firm or the network firm shall not act as a negotiator on the client's behalf.

Commented [IESBA772]: 290.209

R609.7 A firm or a network firm shall not provide a recruiting service to an audit or review client if the service relates to:

Commented [IESBA773]: 290.210

- (a) Searching for or seeking out candidates; or
- (b) Undertaking reference checks of prospective candidates, with respect to the following positions:
 - (i) A director or officer of the entity; or
 - (ii) A member of senior management 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.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 Providing corporate finance services to an audit or review client might create a self-review or advocacy threat.

Commented [IESBA774]: 290.211

610.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a corporate finance service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to audit or review clients because the threats created cannot be addressed by applying safeguards.

Commented [IESBA775]: New paragraph

Requirements and Application Material

All Audit Clients

610.3 A1 Examples of corporate finance services that might create a self-review or advocacy threat include:

Commented [IESBA776]: 290.211

- Assisting an audit or review client in developing corporate strategies.
- Identifying possible targets for the audit or review client to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.
- Providing structuring advice.

- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion or a conclusion.

610.3 A2 Factors that are relevant in evaluating the level of such threats created by providing corporate finance services to an audit or review client include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
 - The amounts are material to the financial statements.
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Commented [IESBA777]: 290.211

610.3 A3 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

Commented [IESBA778]: 290.212

Corporate Finance Services that are Prohibited

R610.4 A firm or a network firm shall not provide corporate finance services to an audit or review client that involve promoting, dealing in, or underwriting the audit or review client's shares.

Commented [IESBA779]: 290.214

R610.5 A firm or a network firm shall not provide corporate finance advice to an audit or review client where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion or a conclusion and:

Commented [IESBA780]: 290.213

- (a) The audit or review team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

SECTION 800

REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Introduction

800.1 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 [IESBA781]: New paragraph

800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits or reviews of special purpose financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an "eligible audit or review engagement."

Commented [IESBA782]: New paragraph

Requirements and Application Material

General

R800.3 When a firm intends to issue a report on an audit or review of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

Commented [IESBA783]: 290.502

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
- (b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

Commented [I784]: 290.501

R800.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

Commented [I785]: 290.501, 290.502

800.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

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R800.5 When the firm performs an eligible audit or review engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm shall not apply

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these modifications when an audit or review of financial statements is required by law or regulation.

R800.6 If the firm also issues an audit or review report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A to that audit or review engagement.

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Public Interest Entities

R800.7 When the firm performs an eligible audit or review engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit or review engagements.

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Related Entities

R800.8 When the firm performs an eligible audit or review engagement, references to "audit or review client" in Part 4A do not need to include its related entities. However, when the audit or review team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit or review team shall include that related entity when identifying, evaluating and addressing threats to independence.

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Networks and Network Firms

R800.9 When the firm performs an eligible audit or review engagement, the specific requirements regarding network firms set out in Part 4A do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

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Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

R800.10 When the firm performs an eligible audit or review engagement:

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- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit or review client and the following audit or review team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit or review client and others within the firm who can directly influence the outcome of the audit or review engagement.

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800.10 A1 Others within a firm who can directly influence the outcome of the audit or review engagement include those who recommend the compensation, or who provide direct supervisory,

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management or other oversight, of the audit or review engagement partner in connection with the performance of the audit or review 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).

R800.11 When the firm performs an eligible audit or review engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit or review client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

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R800.12 When the firm performs an eligible audit or review engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit or review client.

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Employment with an Audit Client

R800.13 When the firm performs an eligible audit or review engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

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Providing Non-Assurance Services

R800.14 If the firm performs an eligible audit or review engagement and provides a non-assurance service to the audit or review client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

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PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

900.1 This Part applies to assurance engagements other than audit and review engagements (referred to as “assurance engagements” in this Part). Examples of such engagements include:

- An audit of specific elements, accounts or items of a financial statement.
- Performance assurance on a company's key performance indicators.

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

Commented [IESBA801]: New paragraph

900.3 Professional and Ethical Standard 3 (Amended), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, ISQC 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 standards. ISAEs (NZ) and SAEs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B 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 assurance team) in accordance with ISQC 1 Professional and Ethical Standard 3 (Amended). In addition, an individual ~~professional accountant~~assurance practitioner remains responsible for compliance with any provisions that apply to that ~~accountant's~~assurance practitioner's activities, interests or relationships.

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

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- (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 assurance team member's integrity, objectivity or professional skepticism has been compromised.

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

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900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and

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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.

900.6 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

Commented [IESBA806]: New paragraph

Description of Other Assurance Engagements

900.7 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. In an assurance engagement, the firm 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. Explanatory Guide (EG) Au1A, The Framework for Assurance Framework Engagements, describes the elements and objectives of an assurance engagement and identifies engagements to which ISAEs the other assurance engagement standards apply. For a description of the elements and objectives of an assurance engagement, refer to the Assurance Framework EG Au1A.

Commented [IESBA807]: 291.2

Commented [IESBA808]: 291.12

Commented [SW809]: Wording used in EG Au1A

900.8 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term "subject matter information" is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Assurance Framework EG Au1A states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO¹ or CoCo² (criteria), to internal control, a process (subject matter).

Commented [IESBA810]: 291.13

900.9 Assurance engagements might be assertion-based or direct reporting. In either case, they involve three separate parties: a firm, a responsible party and intended users.

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900.10 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party. The subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

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900.11 In a direct reporting assurance engagement, the firm:

Commented [IESBA813]: 291.16

- (a) Directly performs the evaluation or measurement of the subject matter; or
- (b) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

¹ Committee of Sponsoring Organizations of the Treadway Commission
² Chartered Professional Accountants of Canada Criteria of Control

Reports that Include a Restriction on Use and Distribution

900.12 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

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Audit and Review Engagements

900.13 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

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Commented [I816]: 291.1

NZ 900.1.1 Part 4A also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these. [extant PES 1 (Revised) NZ 291.1.1]

Requirements and Application Material

General

R900.14 A firm performing an assurance engagement shall be independent.

Commented [IESBA817]: 291.3, 291.6

R900.15 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Commented [IESBA818]: 291.6

NZ R900.15.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Network firms

R900.16 When a firm has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

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900.16 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

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Related Entities

R900.17 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

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Types of Assurance Engagements

Assertion-based Assurance Engagements

R900.18 When performing an assertion-based assurance engagement:

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(a) The assurance team members and the firm shall be independent of the assurance client

(the party responsible for the subject matter information, and which might be responsible for the subject matter) as set out in this Part. The independence requirements set out in this Part prohibit certain relationships between assurance team members and (i) directors or officers, and (ii) individuals at the client in a position to exert significant influence over the subject matter information;

- (b) The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement; and
- (c) The firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

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Commented [IESBA824]: 290.510, 290.511

R900.19 When performing an assertion-based assurance engagement where the responsible party is responsible for the subject matter information but not the subject matter:

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- (a) The assurance team members and the firm shall be independent of the party responsible for the subject matter information (the assurance client); and
- (b) The firm shall evaluate and address any threats the firm has reason to believe are created by interests and relationships between an assurance team member, the firm, a network firm and the party responsible for the subject matter.

Commented [IESBA826]: 291.19, 291.101

900.19 A1 In the majority of assertion-based assurance engagements, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party might not be responsible for the subject matter. An example might be when a firm is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users. In this case, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

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Direct Reporting Assurance Engagements

R900.20 When performing a direct reporting assurance engagement:

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- (a) The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter); and
- (b) The firm shall evaluate and address any threats to independence the firm has reason to believe are created by network firm interests and relationships.

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Multiple Responsible Parties

900.21 A1 In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this Part to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

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- (a) The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible.
- (b) The degree of public interest associated with the engagement.

If the firm determines that the threat created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that responsible party.

[Paragraphs 900.22 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

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900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. 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.

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R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

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- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

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900.32 A1 Examples of actions that might be safeguards to address such threats include:

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- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and non-assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

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- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

[Paragraphs 900.34 to 900.39 are intentionally left blank]

General Documentation of Independence for Assurance Engagements Other than Audit and Review Engagements

R900.40 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

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- (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 required 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.

900.40 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. 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 900.41 to 900.49 are intentionally left blank]

Breach of an Independence Provision for Assurance Engagements Other than Audit and Review Engagements

When a Firm Identifies a Breach

R900.50 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

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- (a) End, suspend or eliminate the interest or relationship that created the breach;
- (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgment 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 assurance report.

R900.51 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end

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the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

R900.52 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

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R900.53 If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

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Documentation

R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

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- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

R900.55 If the firm continues with the assurance engagement, it shall document:

Commented [IESBA845]: 291.37

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

SECTION 905

FEES

Introduction

905.1 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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905.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

Fees—Relative Size

905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement 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.

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

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- 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.

905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.

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905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

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905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

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- Increasing the client base of the partner to reduce dependence on the assurance client.
- Having an appropriate reviewer who was not an assurance team member review the work.

Fees—Overdue

905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

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905.4 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

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R905.5 When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

Commented [IESBA855]: 290.150

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Contingent Fees

905.6 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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R905.7 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

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R905.8 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

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905.9 A1 Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

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905.9 A2 Factors that are relevant in evaluating the level of such a threat include:

Commented [IESBA860]: 291.154

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

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- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

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SECTION 906

GIFTS AND HOSPITALITY

[Reserved for Section 906 which forms part of Inducements project.]

SECTION 907

ACTUAL OR THREATENED LITIGATION

Introduction

- 907.1 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.
- 907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

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Commented [IESBA864]: New paragraph

Application Material

General

- 907.3 A1 The relationship between client management and assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 907.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior assurance engagement.
- 907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.
- 907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

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Commented [IESBA866]: 291.156

Commented [IESBA867]: 291.156

Commented [IESBA868]: 291.156

SECTION 910

FINANCIAL INTERESTS

Introduction

- 910.1 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.
- 910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Commented [IESBA870]: 291.104

Commented [IESBA871]: New paragraph

Requirements and Application Material

General

- 910.3 A1 A financial interest might be held directly or 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 ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 910.3 A2 This section 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.
- 910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Commented [IESBA872]: 291.105

Commented [IESBA873]: 291.103

Commented [IESBA874]: 291.104

Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

- R910.4 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
- (a) The firm; or
- (b) An assurance team member or any of that individual's immediate family.

Commented [IESBA875]: 291.106

Financial Interests in an Entity Controlling an Assurance Client

- R910.5 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance 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

R910.6 Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the 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 assurance team member or any of that individual's immediate family, or the firm;
- (b) The interest in the assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, the assurance team member or any of that individual's immediate family, or the firm.

Financial Interests Received Unintentionally

R910.7 If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance 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, then:

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- (a) If the interest is received by the firm, 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) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

Financial Interests – Other Circumstances

Close Family

910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.

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910.8 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 assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

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- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the assurance team.

910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

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Other Individuals

910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:

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- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
- Individuals with a close personal relationship with an assurance team member.

910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.

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910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

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- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
- Having an appropriate reviewer review the work of the assurance team member.

SECTION 911

LOANS AND GUARANTEES

Introduction

- 911.1 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.
- 911.2 A loan or a guarantee of a loan with an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 911.3 A1 This section 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 Assurance Client

- R911.4 A firm, an assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:
- (a) The firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

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Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution

- R911.5 A firm, an assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.
- 911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.
- 911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

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Deposit or Brokerage Accounts

- R911.6 A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance 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 Assurance Client that is not a Bank or Similar Institution

R911.7 A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- (a) The firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

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SECTION 920

BUSINESS RELATIONSHIPS

Introduction

- 920.1 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.
- 920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 920.3 A1 This section 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.
- 920.3 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 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 distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

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Firm, Assurance Team Member or Immediate Family Business Relationships

- R920.4 A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

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Buying Goods or Services

- 920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance 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.

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However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

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SECTION 921

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 921.1 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.
- 921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.
- 921.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the assurance team.
 - 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 Assurance Team Member

- 921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the subject matter of the engagement.
- 921.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the assurance team member.
- 921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R921.5** An individual shall not participate as an assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the assurance client;
 - (b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or

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Commented [IESBA914]: 291.122

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- (c) Was in such a position during any period covered by the engagement or the subject matter information.

Close Family of an Assurance Team Member

921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:

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- (a) A director or officer of the assurance client; or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.

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

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- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

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921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

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Other Close Relationships of an Assurance Team Member

R921.7 An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

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- (a) A director or officer of the assurance client; or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

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- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.
- The role of the assurance team member.

921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

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921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

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Relationships of Partners and Employees of the Firm

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

- (a) A partner or employee of the firm who is not an assurance team member; and
- (b) A director or officer of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

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

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the assurance team.
- The position of the partner or employee within the firm.
- The role of the individual within the client.

921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

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SECTION 922

RECENT SERVICE WITH AN ASSURANCE CLIENT

Introduction

- 922.1 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.
- 922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

Service During the Period Covered by the Assurance Report

- R922.3** The assurance team shall not include an individual who, during the period covered by the assurance report:
- (a) Had served as a director or officer of the assurance client; or
 - (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

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Service Prior to the Period Covered by the Assurance Report

- 922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:
- (a) Had served as a director or officer of the assurance client; or
 - (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

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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 assurance engagement.

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

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- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

- 922.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

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SECTION 923

SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

Introduction

- 923.1 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.
- 923.2 Serving as a director or officer of an assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

Service as Director or Officer

- R923.3** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

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Service as Company Secretary

- R923.4** A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:

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- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all 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.

- 923.4 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. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-assurances Services to an Assurance Client*.)

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SECTION 924

EMPLOYMENT WITH AN ASSURANCE CLIENT

Introduction

- 924.1 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.
- 924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:
- A director or officer of the assurance client.
 - An employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

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Former Partner or Assurance Team Member Restrictions

- R924.4 If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:

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- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement,

the individual shall not continue to participate in the firm's business or professional activities.

- 924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.

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- 924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.

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- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:

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- The position the individual has taken at the client.
- Any involvement the individual will have with the assurance team.
- The length of time since the individual was an assurance team member or partner of the firm.

- The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm.
- Modifying the plan for the assurance engagement.
- Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former assurance team member.

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Assurance Team Members Entering Employment Negotiations with a Client

R924.5 A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

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924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.

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924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

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924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that assurance team member while on the team.

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SECTION 940

LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Introduction

- 940.1 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.
- 940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

- 940.3 A1 A familiarity threat might be created as a result of an individual's long association with:
- (a) The assurance client;
 - (b) The assurance client's senior management; or
 - (c) The subject matter and subject matter information of the assurance engagement.
- 940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.
- 940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

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Commented [IESBA956]: 291.137

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

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- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

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940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the individual who is the responsible party.

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940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

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940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

Commented [IESBA967]: 291.140

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

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Commented [IESBA969]: 291.140

Commented [IESBA 970]: 291.140

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

Commented [IESBA971]: 291.141

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide quality control for the assurance engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS

Introduction

950.1 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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950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

R950.3 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.

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950.3 A1 The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.

Commented [IESBA975]: New paragraph

950.3 A2 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

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Evaluating Threats

950.4 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:

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- The nature, scope and purpose of the service.
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The legal and regulatory environment in which the service is provided.
- Whether the outcome of the service will affect matters reflected in the subject matter or subject matter information of the assurance engagement, and, if so:
 - The extent to which the outcome of the service will have a material or significant effect on the subject matter of the assurance engagement.
 - The extent of the assurance client's involvement in determining significant matters of judgment.

- The level of expertise of the client's management and employees with respect to the type of service provided.

Materiality in Relation to an Assurance Client's Information

950.4 A2 The concept of materiality in relation to an assurance client's information is addressed in *International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

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Multiple Non-assurance Services Provided to the Same Assurance Client

950.4 A3 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

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Addressing Threats

950.5 A1 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.

Commented [IESBA980]: 100.9, 100.13

Prohibition on Assuming Management Responsibilities

R950.6 A firm shall not assume a management responsibility related to the subject matter or subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter or subject matter information of the assurance engagement provided by the firm.

Commented [IESBA981]: 291.143

950.6 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

Commented [IESBA982]: 291.141

950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the subject matter or subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

Commented [IESBA983]: 291.143

950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

Commented [IESBA984]: 291.142

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).

Commented [IESBA985]: New paragraph

R950.7 To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are related to the subject matter or subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

Commented [IESBA986]: 291.144

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the services; and

(ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

(b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Other Considerations Related to Providing Specific Non-Assurance Services

950.8 A1 A self-review threat might be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

Commented [IESBA987]: 291.146, 291.147

(a) Developing and preparing prospective information and subsequently providing assurance on this information.

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- (b) Performing a valuation that forms part of the subject matter information of an assurance engagement.

SECTION 990

REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Introduction

990.1 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 [IESBA988]: New paragraph

990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an "eligible assurance engagement."

Commented [IESBA989]: 291.21

Commented [IESBA990]: New paragraph

Requirements and Application Material

General

R990.3 When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:

Commented [IESBA991]: 291.21

(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and

Commented [IESBA992]: 291.22

(b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.

Commented [IESBA993]: 291.21

990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

Commented [IESBA994]: 291.21

R990.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

Commented [IESBA995]: 291.22

990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

Commented [IESBA996]: 291.22

R990.5 When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

Commented [IESBA997]: 291.24

R990.6 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

Commented [IESBA998]: 291.23

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

Commented [IESBA999]: 291.25

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

Commented [IESBA1000]: 291.25

Commented [IESBA1001]: 291.25

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

Commented [IESBA1002]: 291.25

R990.8 When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

Commented [IESBA1003]: 291.26

GLOSSARY, ~~INCLUDING LISTS OF ABBREVIATIONS~~

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 terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of 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 practitioners-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~~ assurance practitioners with a view to procuring ~~professional-assurance~~ business.

Appropriate reviewer *An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner, ~~professional-accountant~~.*
This term is described in paragraph 300.8 A4.

[NZ] 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~~
~~(a) —In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.~~
An entity in respect of which a firm conducts an assurance engagement.

Assurance engagement An engagement in which 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 Overview of Auditing and Assurance Standards ~~International Framework for Assurance Engagements~~ issued by the International Auditing and Assurance Standards Board. ~~The International Framework for Assurance Engagements-EG Au1~~ 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.)

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

[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" applies equally to "review."

[NZ] Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability~~listed entity~~, 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" applies equally 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" applies equally to "review engagement."

Audit report In Part 4A, the term "audit report" applies equally to "review report."

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Audit team	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <p class="list-item-l1">(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 Senior or Managing Partner (Chief Executive or equivalent);</p> <p class="list-item-l1">(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</p> <p class="list-item-l1">(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p><i>In Part 4A, the term "audit team" applies equally to "review team."</i></p>
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 R540.5 for the purposes of paragraphs R540.11 to R540.19.</i>
Direct financial interest	<p>A financial interest:</p> <p>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</p> <p>(b) 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.</p>
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 engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>

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Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement partner ³	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 period (Audit and Review Engagements)	The engagement period starts when the audit <u>or review</u> team begins to perform the audit <u>or review</u> . The engagement period ends when the audit <u>or review</u> 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 <u>or review</u> report.
Engagement period (Assurance Engagements Other than Audit and Review Engagements)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. 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.
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	<p>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.</p> <p>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), <i>Using the Work of Internal Auditors</i>.</p>
Existing accountant	An <u>professional</u> accountant in <u>public practice</u> currently holding an audit appointment or carrying out accounting, tax, consulting or similar <u>professional</u> <u>non-assurance</u> 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 <u>assurance practitioner</u> in obtaining sufficient appropriate evidence.

³ Engagement partner: should be read as referring to their public sector equivalents where relevant.

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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 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 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;
- (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 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 of 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 under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Fundamental principles *This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:*

Integrity *R111.1*

Objectivity *R112.1*

Professional competence and due care *R113.1*

Confidentiality *R114.1*

Professional behavior *R115.1*

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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	<p>Independence comprises:</p> <p>(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.</p> <p>(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 or assurance team member's, integrity, objectivity or professional skepticism has been compromised.</p> <p><i>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.</i></p>
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.
<u>[NZ] Key assurance partner</u>	<u>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.</u>
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. <u>[Deleted by the NZAuASB]</u>
May	<i>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. It is not used to denote possibility.</i>

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Might	<i>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. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i>
Network	<p>A larger structure:</p> <ul style="list-style-type: none">(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	<p>A firm or entity that belongs to a network.</p> <p><i>For further information, see paragraphs 400.50 A1 to 400.54 A1.</i></p>
Non-compliance with laws and regulations (Professional Accountants in Business)	<p><i>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:</i></p> <ul style="list-style-type: none"><i>(a) The professional accountant's employing organization;</i><i>(b) Those charged with governance of the employing organization;</i><i>(c) Management of the employing organization; or</i><i>(d) Other individuals working for or under the direction of the employing organization.</i> <p><i>This term is described in paragraph 260.5 A1.</i></p>
Non-compliance with laws and regulations (Professional Accountants in Public Practice)	<p><i>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:</i></p> <ul style="list-style-type: none">(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. <p><i>This term is described in paragraph 360.5 A1.</i></p>
<u>[NZ] Offer document</u>	<p><u><i>A document, such as a product disclosure statement of a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.</i></u></p>
Office	<p>A distinct sub-group, whether organized on geographical or practice lines.</p>

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Predecessor accountant	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.
Professional accountant	An individual who is a member of an IFAC member body. In Part 1, the term "professional accountant" refers to individual 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. <u>[Deleted by the NZAuASB]</u>
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. <u>[Deleted by the NZAuASB]</u>
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. The term "professional accountant in public practice" is also used to refer to a firm of professional accountants in public practice. <u>[Deleted by the NZAuASB]</u>
Professional activity	An activity requiring accountancy or related skills undertaken by an <u>assurance practitioner</u> — professional accountant , including accounting, auditing, tax, management consulting, and financial management.
Professional services	Professional activities performed for clients.
<u>[NZ]</u> Proposed accountant assurance practitioner	An <u>assurance practitioner</u> professional accountant in public practice who is considering accepting an audit, review or assurance appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).
<u>[NZ]</u> Public benefit entity	A reporting entity whose primary objective is to provide goods or services for community for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
<u>[NZ]</u> Public interest entity	(a) —A listed entity; or (b) —An entity: (i) —Defined by regulation or legislation as a public interest entity; or

Commented [SW1004]: New definition

Commented [SW1005]: Term not used in PES 1 (Revised) (following revision of PIE definition)

- (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. Any entity that meets the Tier 1 criteria in accordance with XRB A1⁴ and is not eligible to report in accordance with the accounting requirements of another tier.~~

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 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 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, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

These terms are described in paragraph R120.5 A4.

Related entity

An entity that has any of the following relationships with the client:

- (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

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 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

⁴ XRB A1 *Application of the Accounting Standards Framework*

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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.

- | | |
|-------------|--|
| Review team | <p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</p> <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 Senior or Managing Partner (Chief Executive 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 <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p> |
|-------------|--|

Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraph 120.10 A2.</i></p>
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Senior professional accountant in business	<p>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.</p> <p>This term is described in paragraph 260.11 A1.</p>
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Substantial harm	<i>This term is described in paragraphs 260.5 A3 and 360.5 A3.</i>
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Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
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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
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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

This term is described in paragraph 120.6 A3 and includes the following categories:

<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>120.6 A3(e)</i>

Time-on period

This term is described in paragraph R540.5.

~~LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE~~

LIST OF ABBREVIATIONS

Abbreviation	Explanation
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQCs	International Standards on Quality Control
ISREs	International Standards on Review Engagements

LIST OF STANDARDS REFERRED TO IN THE CODE

Standard	Full Title
ISA 320	Materiality in Planning and Performing an Audit
ISA 610 (Revised 2013)	Using the Work of Internal Auditors
ISAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
ISQC 1	Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
ISRE 2400 (Revised)	Engagements to Review Historical Financial Statements

EFFECTIVE DATE

- Parts 1, 2 and 3 of the restructured Code will be effective as of June 15, 2019.
- Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after June 15, 2019.
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after June 15, 2019; otherwise, it will be effective as of June 15, 2019.

NZ Specific Content in extant PES 1 (Revised) and how it has been incorporated in the draft restructured PES 1

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
New Zealand Preface					NZ Preface replaces the IESBA Preface.		
NZP ¹	Professional and Ethical Standard 1 (Revised), <i>Code of Ethics for Assurance Practitioners</i> (Code) issued by the NZAuASB is based on Part A and Part B of the Code of Ethics for Professional Accountants, 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 definitions are prefixed with NZ in this Code.	N/A	N/A	Y	Preface wording based on extant PES 1 (Revised), amended to reflect revised title of the Code.	NZP	Professional and Ethical Standard 1 (Revised), Code of Ethics for Assurance Practitioners <u>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</u> ("the Code") issued by the NZAuASB is based on Part A 1 and Part 3B of the <u>International</u> Code of Ethics for Professional Accountants (<u>including International Independence Standards</u>), 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 definitions are prefixed with NZ in this Code.
NZP	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.	N/A	N/A	Y	Preface wording based on extant PES 1 (Revised).	NZP	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.
NZP	The independence requirements set out in this Code apply to all	N/A	N/A	Y	Preface wording based on extant PES 1 (Revised),	NZP	The <u>International Independence Standards</u> set out requirements set out that apply to all entities and all

¹ New Zealand Preface
198711.1

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	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 section 290 and section 291. 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 safeguards discussed may not be effective for small firms and no other effective safeguards 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.				amended as necessary to reflect new wording conventions re safeguards.		assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements, especially the independence requirements covered in section 290 and section 291. Many of the <u>examples provided of actions that might address the threat may not be available to small entities and small firms.</u> 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 safeguards discussed may not be effective for small firms and no other effective safeguards 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.
NZP	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	N/A	N/A	N	Proposed to delete this wording from the preface.	NZP	

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	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 safeguards will not be significant. In other cases, achieving satisfactory safeguards will not be possible without significant cost.						
NZP	In the case of a small firm, as applies to all other firms, if the fundamental principles are threatened and no alternative safeguards can be identified, the assurance practitioner or firm shall terminate or decline the engagement.	N/A	N/A	N	Proposed to delete this wording from the preface.	NZP	
NZ Scope and Application							
NZ1.1	This Code is operative from 1 January 2014 and supersedes Professional and Ethical Standard (PES) 1 <i>Ethical Standards for Assurance Practitioners</i> and PES 2 <i>Independence in Assurance Engagements</i> (issued by the XRB in July 2011). Earlier adoption of this Code is permitted. Transitional provisions relating to public interest entities, partner	N/A	N/A	Y	Replaced with proposed NZ text.	NZ1.1	Professional and Ethical Standard 1, <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))</i> ("the Code") is effective from [date] and supersedes Professional and Ethical Standard 1 (Revised), <i>Code of Ethics for Assurance Practitioners</i> , issued by the XRB in January 2013. Early adoption of the Code is permitted.

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	rotation, non-assurance services, fees – relative size, compensation and evaluation policies apply from the date specified in the respective transitional provisions (refer to page 130).						
NZ1.2	This Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. This 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 this 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.	N/A	N/A	Y	Same as extant	NZ1.2	This Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. This 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 this 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	This Code is not intended to detract from responsibilities which may be imposed by law or regulation.	N/A	N/A	Y	Same as extant	NZ1.3	

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
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 this Code.	N/A	N/A	Y	Same as extant	NZ1.4	
Part A - Fundamental Principles							
N/A		Preface	100.3 A1	N	The last two sentences in the IESBA paragraph are deleted for the NZ context.	100.3 A1	The principle of professional behaviour requires an assurance practitioner to comply with relevant laws and regulations. Some jurisdictions might have provisions 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 provisions unless prohibited by law or regulation.
New	When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.	N/A	R120.4	Y	New IESBA paragraph arising from the applicability project. Amended for application in NZ as Part 2 is not included in PES 1.	NZR120.4.1	When dealing with an ethics issue, the professional accountant assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner professional accountant in public practice is performing professional activities assurance services pursuant to the assurance practitioner's accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 any other ethical standards that apply to these circumstances.
NZ140.7.1	The circumstances in paragraph 140.7 do not take into account New Zealand legal and regulatory requirements. An assurance	140.7	114.1 A1	Y	Change required to update paragraph reference.	NZ114.1 A1.1	The circumstances in paragraph 114.1 A1 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	practitioner considering disclosing confidential information about a client without their consent is advised to first obtain legal advice.				Paragraph is consistent with AUST 140.7.1		confidential information about a client without their consent is advised to first obtain legal advice.
Part B – Application of the Fundamental Principles							
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.	220.11	310.9 A3	Y	Established as a requirement in NZ. This reflects current best practice based on OAG and guidance issued by the IOD.	NZR310.9.1	<u>The assurance practitioner shall:</u> (a) <u>Disclose the nature of the conflict of interest and how any threats were addressed to clients or potential clients affected by the conflict of interest; and</u> (b) <u>Obtain the consent of the affected clients to perform the assurance services when safeguards are applied to reduce the threat to an acceptable level.</u>
NZ220.11	Disclosure and consent may take different forms, for example: <ul style="list-style-type: none"> General disclosure to clients of circumstances where the assurance practitioner, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to 	220.11	R310.9 310.9 A2	N	The separation of the extant paragraph into 3 separate paragraphs, R310.9, 310.9 A2 and 310.9 A3 eliminates the need to include this paragraph as a NZ paragraph.	R310.9 310.9 A2	N/A

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<p>provide general consent accordingly. Such disclosure might, for example, be made in the assurance practitioner's standard terms and conditions for the engagement.</p> <ul style="list-style-type: none"> • Specific disclosure to affected clients of the circumstances of the particular conflict including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly. • In certain circumstances consent may be implied by the client's conduct where the assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict. 						

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	The assurance practitioner shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose the assurance practitioner shall exercise professional judgement in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.						
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.	220.14	R310.12 310.12 A1	Y	NZ best practice is that such engagements shall not be undertaken.	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.
NZ225	NZ specific paragraphs considered as part of the compelling reason amendments						
230	Section deleted by the NZAuASB. A second opinion engagement is not an assurance engagement.						
NZ240.9	The receipt or payment of referral fees, commissions or other similar benefits in connection with an	240.5 240.6	330.5 A1 330.5 A2	Y	Paragraphs 240.5-240.7 are deleted by the NZAuASB.	NZ R330.5	An assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with an assurance engagement.

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	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.	240.7			Given the mandate of the NZAuASB is limited to assurance engagements, it is always appropriate to prohibit the receipt of commissions and referral fees. The IESBA Code has a broader scope and these paragraphs are relevant in a broader context. The extant paragraph contains requirement and application material. Staff recommend splitting into two paragraphs.	NZ 330.5.A1.1	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.
New	When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances	N/A	R300.5	Y	New IESBA paragraph arising from the applicability project. Amended for application in NZ as Part 2 is not included in PES 1.	NZR300.5.1	When dealing with an ethics issue, the professional accountant <u>assurance practitioner</u> shall consider the context in which the issue has arisen or might arise. Where an individual who is an <u>assurance practitioner</u> professional accountant in public practice is performing professional activities <u>assurance services</u> pursuant to the <u>assurance practitioner's accountant's</u> relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 <u>any other ethical standards</u> that apply to these circumstances.
New	Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include: • Facing a conflict of interest	N/A	300.5 A1	Y	New IESBA paragraph arising from the applicability project. Amended for application in NZ as Part 2 is not included in PES 1.	300.5 A1	Examples of such situations in which the provisions in Part 2 apply to a professional accountant in public practice include: • Facing a conflict of interest when being responsible for selecting a vendor for the firm when an

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<p>when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.</p> <ul style="list-style-type: none"> Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances. Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances. Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set 						<p>immediate family member of the accountant <u>assurance practitioner</u> might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.</p> <ul style="list-style-type: none"> Preparing or presenting financial information for the accountant's <u>assurance practitioner's</u> client or firm. The requirements and application material set out in Section 220 apply in these circumstances. Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances. Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	out in Section 270 apply in these circumstances.						
NZ290.1.1	This section also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.	290.1	400.1	Y	Part 4A of the IESBA Code applies only to audit and review engagements to report on a complete set of financial statements and a single financial statement. The nature of assurance provided where the subject matter is prospective information included in any offer document of an issuer and the importance of those services to the broader public interest warrant the same independence requirements.	NZ 400.2.2	This Part also applies to 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.
NZ290.11.1	Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.	290.11	R400.11- R400.12	Y	The discussion on the conceptual framework at the start of extant section 290 has been relocated in the restructured Code to Section 120. The restructured material includes a new reference to multiple threats. It is not as detailed as the extant paragraph and is in a different section to the independence standards. Staff recommend including the extant paragraph in Parts 4A and 4B.	NZ R400.12.1	Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
NZ290.25	<p>Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:</p> <ul style="list-style-type: none"> 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. 	290.25	Definition of PIE	Y	Replaced with NZ definition of PIE	Definition of PIE in glossary	Any entity that meets the Tier 1 criteria in accordance with XRB A1 ⁴ and is not eligible to report in accordance with the accounting requirements of another tier.
NZ290.144	If a partner or employee of the firm serves as a director or officer of an audit or review client, or as a liquidator or receiver in respect of the property of the client, or in a similar role, the self-review and self-interest threats created would be so significant that no safeguards could reduce the	290.144	R523.3	Y	The Companies Act 1993 prohibits the auditor from acting as liquidator or receiver of a client.	NZ R523.3	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.

² Public Benefit Entity

³ XRB A1 *Application of the Accounting Standards Framework*.

⁴ XRB A1 *Application of the Accounting Standards Framework*

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	threats to an acceptable level. Accordingly, no partner or employee shall serve as a director, officer, liquidator or receiver of an audit or review client.						
NZ290.215.1	When appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall decline or withdraw from the engagement.	290.215	410.3 A1 410.3 A2 410.3 A3	Y	Where total fees from one assurance client represent a large proportion of total fees of the firm, this is a significant threat. The NZ paragraph adds emphasis that where the threat cannot be eliminated or reduced to an acceptable level, the assurance practitioner shall decline or withdraw. This action is required by the conceptual framework, paragraph R120.10	NZ R410.3	As required by R120.10, where the threat cannot be eliminated or safeguards, where available and capable of being applied, cannot reduce the threat to an acceptable level, the firm shall decline or withdraw from the engagement.
NZ291.1.1	Section 290 also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.	291.1	900.13	Y	The NZAuASB has expanded the scope of Part 4A of the Code to apply to assurance engagements in relation to an offer document of a FMC HLP. The nature of assurance provided where the subject matter is prospective information included in any offer document of an issuer and the importance of those services to the broader public interest warrant the same independence requirements.	NZ 900.1.1	Part 4A also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
NZ291.3.1	<p>Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:</p> <ul style="list-style-type: none"> Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1⁵. 	N/A	N/A	TBD	To be considered in the compelling reason discussion.		
NZ291.3.2	<p>Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:</p>	N/A	N/A	TBD	To be considered in the compelling reason discussion.		

⁵ XRB A1 *Application of the Accounting Standards Framework*.

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<ul style="list-style-type: none"> The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds; Size; and Number of employees. 						
NZ291.10.1	Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.	291.10	R900.15	Y	The discussion on the conceptual framework at the start of extant section 291 has been relocated in the restructured Code to Section 120. The restructured material includes a new reference to multiple threats. It is not as detailed as the extant paragraph and is in a different section to the independence standards. Staff recommend including the extant paragraph in Parts 4A and 4B.	NZ R900.15.1	
NZ291.27.1	When the conditions set out in paragraphs 291.21 and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to	N/A	N/A	TBD	To be considered in the compelling reason discussion.		

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	assurance engagements for public interest entities.						
NZ291.34- NZ291.43	Breach of a provision of this section	291.33- 291.37	R900.50- R900.55	TBD	To be considered as part of the compelling reason discussion.		
NZ291.129.1	<p>The lending of staff by a firm to an assurance client may create a self-review threat. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client. Such assistance may be given, but the firm's personnel shall not be involved in:</p> <ul style="list-style-type: none"> • Providing non-assurance services that would not be permitted under this section; or • Assuming management responsibilities in a position which would give the loaned staff significant influence over the subject matter on which the firm will express an opinion. <p>In all circumstances, the assurance client shall be responsible for directing and supervising the activities of the loaned staff.</p>	N/A	N/A	TBD	To be considered as part of the compelling reason discussion.		

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Conducting an additional review of the work performed by the loaned staff; • Not giving the loaned staff responsibility for any function or activity that the staff performed during the temporary staff assignment; or • Not including the loaned staff as a member of the assurance team. 						
NZ291.141.1- NZ291.141.15	Long association of personnel with an assurance client	291.137	Section 940	TBD	To be considered as part of the compelling reason discussion.		
NZ291.147.1	A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.	N/A	N/A	TBD	To be considered as part of the compelling reason discussion.		

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
NZ291.147.2	In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.	N/A	N/A	TBD	To be considered as part of the compelling reason discussion.		
NZ291.147.3	<p>A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:</p> <ul style="list-style-type: none"> • Searching for or seeking out candidates for such positions; and • Undertaking reference checks of prospective candidates for such positions. 	N/A	N/A	TBD	To be considered as part of the compelling reason discussion.		
NZ291.149.1	Where an assurance client is a public interest entity and, for two consecutive years, the total fees	N/A	N/A	TBD	To be considered as part of the compelling reason discussion.		

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<p>from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm, the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:</p> <ul style="list-style-type: none"> • Prior to the issuance of the second year's opinion, another assurance practitioner, who is not a member of the firm expressing the conclusion, performs an engagement quality control review of that engagement ("a pre-issuance review"); or • After the second year's opinion has been issued, and before the issuance of the conclusion on the third year's opinion, another assurance practitioner, who is not a member of the firm, performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review"). <p>When the total fees significantly exceed 15%, the firm shall</p>						

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<p>determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p> <p>Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p>						
Glossary					The restructured IESBA Code includes defined terms in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms.		

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
					Staff recommendation is to retain the described terms in the Glossary, but not to include such terms in EG Au4.		
[NZ] Assurance Client	An entity in respect of which a firm conducts an assurance engagement.	Assurance Client	Assurance Client	Y		[NZ] Assurance Client	An entity in respect of which a firm conducts an assurance engagement.
[NZ] Assurance practitioner	A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements.	N/A	N/A	Y	NZ specific term – reflects the NZAuASB's limited mandate	[NZ] Assurance practitioner	A person or organization, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements.
[NZ] Assurance services	Comprise of any assurance engagements performed by an assurance practitioner.	N/A	N/A	Y	NZ specific term – reflects the NZAuASB's limited mandate	[NZ] Assurance services	Comprise of any assurance engagements performed by an assurance practitioner.
[NZ] Assurance team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p>(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</p>	Assurance team	Assurance team	Y	<p>Not clear why the words, "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)" are added?</p> <p>OPEN</p>	[NZ] Assurance team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p>(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);</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</p>

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
	<p>above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</p> <p>(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</p>						(iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.
[NZ] Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control.	Audit client	Audit client	Y	Replacing listed entity with NZ defined term FMC reporting entity considered to have a higher level of public accountability	[NZ] Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control. <i>(See also paragraph R400.20.)</i>
[NZ] FMC reporting entity considered to	A FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level	N/A	N/A	Y	Term replaces listed entity	[NZ] FMC reporting entity considered to	A FMC reporting entity of a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
have a higher level of public accountability	<p>of public accountability than other FMC reporting entities:</p> <ul style="list-style-type: none"> 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. 					have a higher level of public accountability	<ul style="list-style-type: none"> Under section 461K of the Financial Markets Conduct Act 2013; or By notice issued by the Financial Markets Authority under section 461L(1)(1) of the Financial Markets Conduct Act 2013.
[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 judgements on significant matters with respect to the assurance engagement.	N/A	N/A	Y	NZ specific term – necessary in Part 4A where the IESBA term “audit” means both audit and review. In PES 1, audit and review are referred to separately to add clarity.	[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 judgements on significant matters with respect to the assurance engagement.
[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.	N/A	N/A	Y	NZ specific term. Broadening the scope of Part 4A to apply to offer documents	[NZ] Offer document	A document, such as a product disclosure statement of a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.
[NZ] Public benefit entity	A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.	N/A	N/A	N	Term no longer used in the definition of public interest entity.		

NZ Specific para	Extant paragraph	Related extant IESBA para	Related new IESBA para	NZ material needed in New Code (Y/N)	Comments	New para no.	Proposed NZ specific items for draft restructured PES 1
[NZ] Public interest entity	Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1 ⁶ .	Public interest entity	Public interest entity	Y	NZ defined term (revised during long association project)	[NZ] Public interest entity	Any entity that meets the Tier 1 criteria in accordance with XRB A1 ⁷ and is not eligible to report in accordance with the accounting requirements of another tier.

⁶ XRB A1 *Application of the Accounting Standards Framework*.

⁷ CRB A1 *Application of the Accounting Standards Framework*
198711.1

Overview of contextual changes made to the restructured International Code

1. Changes made as a result of the mandate of the NZAuASB:

International Code	Draft PES 1	Comment
professional accountant, professional accountant in public practice, or accountant	assurance practitioner	NZAuASB scope is limited to assurance providers.
public practice	delete	Applies to assurance practitioners only
Employer or employing organization	delete	Relates to Part 2
Part C – Professional accountants in Business	delete	Not related to assurance services
professional services (note: professional service is not changed)	assurance services (exceptions 310.9 A2 and R310.10) or when applicable, non-assurance services	Mandate covers assurance work only.
work assignments	assurance engagements	Mandate only covers assurance engagements not all work assignments
work environment	systems and procedures	Mandate restricted to assurance environment
technical and professional standards	standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board	Only the XRB standards are binding.
professional	Either professional/assurance practitioner/ individual	As appropriate in the context

2. Other changes:

International Code	Draft PES 1	Comment
listed entity	FMC reporting entity considered to have a higher level of accountability	Defined term
Assurance Framework	Delete or refer to EG Au1	XRB or NZAuASB has not issued the Framework
profession	accountancy profession	More specific
ISQC1	Professional and Ethical Standard 3 (Amended), <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i>	Amend international references to refer to NZ standards.

3. NZ spelling changes:

International Code	Draft PES 1
behavior	behaviour
inquiry	enquiry
judgment	judgement
skepticism	scepticism
z	s

Agenda item no: 5a
Meeting Date: 11 April 2018
Subject: Memo to NZAuASB on National Standards Setters Meeting May 2018
Date: 29 March 2018
Prepared by: Robert Buchanan

Introduction

The NSS meetings are an important vehicle for the NZAuASB to influence the direction of standard setting internationally, and to raise the profile of New Zealand with both international boards. This year's meetings assume additional importance, given the Monitoring Group's review and the uncertainty about what the outcome might mean for the work of the international boards and for standard-setting in New Zealand and comparable jurisdictions.

The NZAuASB meeting papers include discussion papers identifying potential issues for inclusion in our country reports, and inviting comment on each of the substantive agenda items, for each NSS meeting. I am keen to for all Board members to contribute to this discussion, and hope the following additional context will be useful.

The two meetings are traditionally held on consecutive days, with the IESBA meeting preceding the IAASB one. We are fortunate to be able to attend both, given our Board's responsibility for both the standards and the code. We are not alone in this, but notably both Australia and Canada are separately represented at the two meetings.

The two Boards have been encouraged to work more closely together, and it is pleasing to see there will be some cross-over between the two agendas this year.

I learned last year of the importance of planning and collaboration with like-minded countries, and hope this will be enhanced at this year's meetings.

In the IAASB space, we have been working closely with the AUASB to understand the potential implications of the Monitoring Group's proposals for our respective jurisdictions, and to explore how the NSSs as a group can better collaborate and co-ordinate with each other to the overall benefit of the standard-setting process. On this basis, I was pleased to support the AUASB Chair's initiative to propose, and offer to jointly chair, a private session at the start of the NSS meeting without IAASB members or staff present. That proposal was readily accepted by Dr Schilder. The session focus will be on how NSSs (including those that are regulators) can best identify issues with the IAASB's standards and "feed them up" to the IAASB. NZAuASB thoughts on this would be welcome.

Coming out of the XRB's 2017 joint strategy day and the AUASB's parallel strategy work, we are also now working actively to explore collaboration opportunities with other like-minded NSSs on a regional or subject-matter basis. We will have an opportunity to progress this later in the year with the AUASB and the NSS of South Africa in the EER space, on the sidelines of the Sydney World Congress. This will leverage off the involvement of both Marje Russ (NZAuASB) and Jo Cain (AUASB) in the advisory panel

assisting the IAASB's task force (of which Lyn Provost is a member), and a roundtable meeting on EER that has been planned for the week before the Congress. That work could, in turn, lay the groundwork for broader future collaboration, especially if the IAASB's role were to change or focus more in the PIE space.

It has also been encouraging to receive a proposal from the Canadians to join with us and the AUASB on the sidelines of the Vienna meeting, to explore areas of common interest and future collaboration.

In the IESBA space, the Australian, Canadian and New Zealand delegations have traditionally met in advance of the NSS meeting to discuss areas of common interest in the agenda. This year, we will also be holding a conference call with the chair of the Canadian ethics board (a professional body) in advance of the meeting, and I also hope to meet with the APESB Chair when in Melbourne for the next AUASB meeting later in April. It would be most helpful to have input from the NZAuASB on the agenda topics, including the restructured Code rollout and the approach to non-assurance services, so that we can explore the possibilities for a common approach on those and other matters.

Agenda item no: 5.1
Meeting Date: 11 April 2018
Subject: IAASB NSS Topics May 2018
Date: 27 March 2018
Prepared by: Sylvia van Dyk

Purpose

1. The purpose of this item is to provide background to the Board on topics to be discussed at the IAASB 2018 NSS meeting, and to obtain the Board's feedback on the topics.

Background

2. The IAASB National standard setters meeting is due to be held on 8 and 9 May 2018 in Vienna. The NZAuASB Chair and the Director of Assurance Standards will attend this meeting.
3. As noted in the Chair's memorandum (at item 5a), the AUASB with the support of our Chair offered to jointly chair a "private session" to be held at the start of the meeting, i.e. involving the NSS representatives only. The proposal was agreed to by the IAASB Chairman, the agreed objective of the session being to stimulate discussion as to how NSSs can collaborate as a collective, and usefully feed information to IAASB. (For example, how those with inspection findings can collectively identify and draw the IAASB's attention to requirements or guidance in internationally adopted NSS standards that are problematic between public oversight boards and auditors.)
4. NZAuASB feedback will be welcome on this initiative, including on points of emphasis both from a New Zealand NSS perspective and how the meeting might best be directed.
5. The preliminary agenda indicated the following topics to be discussed at the meeting:
 - Technology – joint session with IESBA NSS participants
 - National trends and development of international relevance and strategic importance
 - Strategy and Work plan
 - Quality control at the firm level (proposed ISQC1 (Revised))
 - ISA 540 (Revised) – update on IAASB activities
 - ISA 315 (Revised) – update on IAASB activities
 - SMP and SME Issues.

6. We have prepared a discussion paper on these topics at agenda 5.2 (other than for the ISA 540 and ISA 315 update on IAASB activities).

Matters for consideration

7. We ask that the Board consider the discussion paper at agenda 5.2 and provide any further comments/feedback that the Board believe should be raised/emphasised at the NSS meeting.

Material presented

- | | |
|-----|---|
| 5.1 | Board meeting summary paper IAASB NSS Topics May 2018 |
| 5.2 | Discussion paper on NSS topics |
| 5.3 | Draft ED ISQC1 (Revised) |
| 5.4 | SME audits survey results summary |

Discussion Paper on IAASB NSS Topics

The Board is invited to comment on the following topics which have been signalled as agenda items for the NSS meeting.

A. Technology – open discussion and share information regarding how technology, in particular artificial intelligence and blockchain, is impacting firms in NSS jurisdictions.

This discussion is likely to benefit the ongoing work of the IAASB's Data Analytics Working Group.

Draft response

We contacted a number of firms in New Zealand about these matters. A summary of the responses are as follows:

- Major audit firms report that significant research and development activities are undertaken into use of Artificial Intelligence (AI). These projects are concentrated and conducted at firms' global level (and not in NZ). At this stage there are some pilot cases being undertaken in larger audit markets (like USA and the UK). At present, there are no significant use of AI in auditing financial statements in NZ. Consequently, there has been no significant change in how NZ firms conduct their audits due to use of AI technologies.
- The firms report that their clients' information systems relevant to audit of financial statements have not been significantly affected by the use of Blockchain technology at this stage. The firms also report no major research activities into use of Blockchain in auditing financial statements. The interviewed firms noted that the Blockchain technology has a greater impact over wider business models of their clients and that divisions other than audit and assurance (e.g. advisory) are more focused on potential uses of Blockchain at present. The firms expect significant impact on auditing when/if blockchain technology starts to impact their clients' information systems underlying financial information.
- The firms continue to invest in automation of routine audit procedures to gain efficiencies. All firms report that they have now automated a considerable portion of manual operations involving routine and repeating audit procedures usually undertaken by inexperienced junior staff.
- Use of Data Analytics (DA) has gained momentum in firms. The interviewed firms agreed in emphasising the superiority of substantive analytical procedures facilitated by DA compared to traditional sampling based approach. However, audit firms noted that they are not using DA procedures to their full potential because:
 - Uncertainty around these procedures being acceptable to the FMA. The auditing standards at present are not clear on using DA as audit evidence.
 - Cost of implementing DA procedures where the required data cannot be readily collected from the clients' information systems (e.g. client's IS does not maintain the required data in a usable format and major additional work is required before the data can be converted into a suitable format).

This seems consistent with the presentation by Brent Manning at the meeting in December 2017.

- Smaller firms also report no significant impact of technology on how they conduct their audits. Smaller firms also report increased automation of routine and low-skilled audit procedures and tasks.
- Smaller firms seem to use DA less extensively than bigger firms. This is due to both the different characteristics of information systems of smaller clients (smaller number of transitions, less sophisticated information systems etc.) and the comparatively more restricted resources at the smaller firms' disposal.

Does the Board have any further comments to raise, including on the likely value to the NSS meeting and IAASB of information of this type from a small jurisdiction?

B. Significant national developments or issues (whether related to standard setting, convergence or emerging issues) being addressed in New Zealand

It is proposed to cover the following matters in our country update. [To be updated for any matters raised at the joint strategy day discussion]

a) Implementation of the new auditor's report

The NZAuASB and the regulator, the Financial Market Authority (FMA), have published the results of their joint analysis of **Key audit matters – A stock-take of the first year in New Zealand.**

As well as reviewing the auditor's reports of 168 entities, the survey engaged directly with investors, preparers, directors and auditors.

The purpose of this publication was to provide insights into the experience to date to help improve New Zealand auditor reporting. Take-up of the new requirements for extended auditor's reports has been positive.

The analysis confirms that:

- Auditors have met the new requirements and, in many cases, have gone further and reported more than required.
- Directors have responded positively to the changes that are aimed at enhancing transparency.
- Users have had mixed responses to the revised auditor's report as they become more familiar with the new auditor's reports.

Variation in practice was found in the following areas:

- Reporting information about materiality;
- Reporting information about the outcome of audit procedures performed with respect to key audit matters identified;
- Some explanation of the audit scoping process

The NZAuASB has also issued [Frequently Asked Questions](#) to assist auditors, directors, audit committee members, chief financial officers and other stakeholders in understanding the enhanced auditor reporting requirements in New Zealand. The questions have drawn on those prepared by the IAASB and the Australian Auditing and Assurance Standards Board.

b) Development of the auditing standard on service performance

The New Zealand Accounting Standards Board (NZASB) finalised an accounting standard that requires the reporting of a Service Performance to better meet the needs of users of general purpose financial reports of public benefit entities. Service Performance is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with reporting contextual information.

The New Zealand Auditing and Assurance Standards Board (NZAuASB) has worked alongside the NZASB in developing an auditing standard on the Service Performance information. We made a presentation to the 2017 NSS meeting about this work. The Board is now in the process of finalising the standard following an exposure process.

c) Extended External Reporting (EER)

The External Reporting Board (XRB), in collaboration with the McGuinness Institute¹, has recently completed a [Preparers' Survey and Users' Survey](#) to explore the current and future landscape of reporting in New Zealand, and the usefulness of corporate reporting for public decision making. The surveys aimed to:

- Raise awareness about the importance of non-financial information;
- Learn more about what is and is not working in the current reporting landscape and
- Understand the barriers to and enablers of Extended External reporting.

It is interesting to note that 56% of the 92 preparers that responded to the survey, and 76% of the 104 users that responded, thought that EER should be independently assured. Both preparers and users are looking to the XRB for EER guidance and mandatory requirements.

Given the uptake and interest amongst users and preparers on EER reporting in New Zealand, the NZAuASB see it as important to be proactive in this growing area. It is mindful of the broader context of the IAASB's work to develop the assurance response to emerging forms of external reporting. In that regard, the Board is very pleased that a NZAuASB member, Marje Russ has been appointed to the IAASB's EER Project Advisory Panel.

d) Guidance for prescribers

The NZAuASB developed guidance for prescribers of assurance engagements, for example, funders of not-for-profit entities, policy makers and those who draft legislation, and regulatory supervisors.

The objective of the guidance is to clarify the correct terms to use when setting assurance requirements that may result in use of the NZAuASB standards. The guidance has been well-received.

¹ The McGuinness Institute is a non-partisan think tank working towards a sustainable future for New Zealand.

e) Examination of prospective information

The NZAuASB approved a project plan to develop an assurance standard on prospective financial information.

This project is being undertaken in response to an increased demand for assurance over prospective financial information. Local authorities have also, for many year, been required to prepare prospective financial information as part of their long-term planning under legislation, and to have the information audited. There is currently no standard on prospective financial information in the New Zealand suite of standards.

The standard will be developed in accordance with due process for domestic standards and in collaboration with the AUASB as appropriate, recognising that the standard will have application in relation to corporate fundraisings as well as local authorities' long-term plans. It is anticipated that it will take about 15 months to develop and finalise the standard.

f) Agreed Upon procedures

The NZAuASB has been conscious for some time of the need to have a new standard for Agreed-upon Procedures for New Zealand, drawing on the recent work of the IAASB. However, the XRB's mandate is confined to issuing auditing and assurance standards, including professional and ethical standards for assurance practitioners. We are expecting that legislation will be enacted to extend the XRB's mandate to include the issue of standards on AUPs and, more generally, related services provided by assurance practitioners. The mandate is not expected in the short term due to a recent election and change of government. Chartered Accountants Australia and New Zealand (CA ANZ) has agreed to issue a revised AUP standard in the interim, based on the AUASB's standard [insert number].

Does the Board have any further comment on the significant developments noted? Are the matters presented in the best order of significance and with sufficient commentary? And there any further matters to raise?

C. IAASB Strategy and Work Plan

The IAASB is planning to consult with stakeholders on its strategy for 2020 to 2023. A survey is to be released on 1 May 2018. The input from the stakeholder survey, together with the results of more targeted outreach, will be used to inform the development of the consultation paper on the IAASB's future Strategy. The survey will also be used as the basis for a general discussion on the IAASB's current projects and future strategic direction with the IAASB's Consultative Advisory Group (CAG) at its September 2018 meeting (i.e., before the IAASB approves the consultation paper).

The 2017–2018 Work Plan is reflective of the need to focus on supporting the performance of high-quality audits, with a result that the IAASB is currently revising several significant International Standards on Auditing and its Quality Control standards. These projects are expected to complete starting in 2018, but some of the more significant projects are expected to continue into 2020.

Accordingly, the Steering Committee believes that it is important to obtain initial stakeholder views about the matters listed below (as extracted from the IAASB's March Board papers). We have noted

some initial draft views under each of the questions, and ask the Board for further feedback and comments on the matters noted.

- **What the IAASB's strategic environment may look like from 2020 onwards.**

Points to cover in the response

Changing audit thresholds in certain jurisdictions may result in increasing numbers of entities no longer required to have audits performed.

Ongoing evolution in the way that companies are regulated (e.g., public interest entities versus non-public interest entities, financial institutions)

Regulators continue to drive for more rules based audits.

Decrease in number of audit firms and auditors due to decreasing profitability and increasing compliance requirements.

- **What the IAASB's strategic issues or challenges may be from 2020.**

Points to cover in the response

How technology is transforming how audits are being performed (e.g., how are more advanced data analytics tools and techniques being used to perform audit procedures, especially as the client's IT systems continue to evolve at a rapid pace, or could these data analytics tools and techniques be used to perform more robust procedures, thereby possibly changing the way that audit evidence is obtained and how certain extant standards are structured)

Further, how technology is changing engagement teams through changes to audit delivery models.

How to address the scalability of the standards.

How to address the continued expectation gap.

- **The relative focus of the IAASB's activities between audit and assurance standards?**

Points to cover in the response

Broader assurance needs will begin to dominate stakeholder needs and continue to shift the focus away from audits of historical financial information (for example, relating to reporting on non-financial or forward-looking information).

- **How should the IAASB best serve the public interest in this increasingly disruptive environment? Through solely developing high-quality international standards, or would other supporting activities (e.g., related to implementation or formalized post-implementation reviews) be more beneficial? Might a moratorium on new or revised standards be considered after finalization and during implementation of the current standards under revision?**

Points to cover in the response

To concentrate on a period of stability and post implementation reviews after completing the current standards under revision.

Conduct research on user needs to identify priorities.

- **Whether there are improvements possible to the IAASB's modus operandi within the current structure and environment? Are more resources needed?**

Points to cover in the response

Consider how technology could be used to enhance how the IAASB undertakes its activities (e.g., interactive handbook, using technology to facilitate international meetings, or changing the structure of the standards to support scalability).

Using NSS staff to assist with projects.

Does the Board have any feedback on the questions and initial draft response noted? What other matters should be raised?

D. Quality Control at the Firm Level (Proposed ISQC 1 (Revised))

Discussion topics:

- Structure and scalability of the standard
- Whether the standard achieves its intended purpose
- Proposed timing
- Further outreach that may be useful in NSS jurisdictions

A copy of the draft standard is available at **agenda 5.3**.

With reference to the draft standard at agenda item 5.3, what is the NZAuASB's initial high-level views about the discussion topics?

Draft response:

Structure and scalability

The IAASB had a robust discussion at the March meeting about the inclusion of the guidance material in Appendix 1. Some members considered it cumbersome to have to refer to the requirements, the application material and Appendix 1. All agreed that the content is good but that the location in an Appendix makes the standard cumbersome. The practitioners in NZ that we consulted was happy with the guidance included as an Appendix, and not as separate guidance material.

The eight components and interrelationships are clearly explained in the standard. The overall structure works well.

Regarding scalability, it will be important to have guidance at a practical level on how to implement revised ISQC 1. Internationally established guidance would provide clarity of intent and consistency of implementation globally. It would be helpful to include an example of how it can be applied by a sole practitioner and other various size firms.

Whether the standard achieve its intended purpose

The objective in revising ISQC 1 was to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach, fostering the ability of the standard to be applied to a wide range of circumstances, and enhancing the requirements and application material.

The standard does take a quality risk assessment process and has clearly set objectives and responses to the risks. As noted above, scalability still needs to be better demonstrated. It may not be fit for purpose if it is too long. Need to consider what is essential, and why? Scalability is framed by professional judgement. Will need to decide if the minimum requirements are always necessary.

Proposed timing

To be advised.

Further outreach that may be necessary

Suggest field testing to be conducted, especially through consultation with sole practitioners. Could be done by targeted roundtable discussions.

E. Small and Medium Sized Practices (SMP)/Small and Medium Sized Entities (SME) Issues

As a follow-up from the conference held in Paris on the audit of SMEs, at the March 2018 meeting the IAASB agreed to the formation of a task force to:

- Consider issues identified regarding the audit of SMEs;
- Prepare and issue a consultation paper to assist in identifying the issues and drivers surrounding the application of the ISAs to SMEs and less complex entities; and
- Following the consultation advise the Board on what, if any, action is required to address the issues.

Draft response:

We welcome and support the decision of the IAASB to consider this issue further. We believe it is in the public interest to do so, as there are a huge number of small audits where the compliance cost of an audit is becoming prohibitive. This is particularly so in the case of charities.

Also, the NZAuASB has a strategic action to 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 in 2016-17.

Survey conducted in New Zealand on the scalability of the ISAs:

We sent out a survey in December 2016 to all registered auditors to obtain their feedback on the scalability of the international standards for auditing SMEs. In addition, we sent out specific requests

targeting mid-tier firms and the special audit interest group. CAANZ also published the questionnaire in its Newsletter in December 2016, and we included it in the December XRBrief.

We asked the following questions in the survey:

- i. What would you define as an SME?
- ii. Which auditing standards listed do you have difficulty with in applying to audits of SMEs (standards listed were the Quality Control Standard, individual standards in 200-299 General Principles and Responsibilities, 300-499 Risk Assessment and Response to Assessed Risks and 500-599 Audit Evidence series.)
- iii. For any standard identified above as being difficult to apply, please tell us why.
- iv. Are there any other standards you find difficult to apply? Please tell us why.
- v. Any other comments?

Overview of results

We received 48 responses to the survey. The results of the survey are included at **agenda item 5.4**. We suggest making these survey results available to the SMP Taskforce.

Are there any other issues the Board would want us to raise in respect of SME/SMP issues?

DRAFT EXPOSURE DRAFT OF INTERNATIONAL STANDARD ON QUALITY CONTROL 1 (REVISED) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

SECOND READ (CLEAN VERSION)

(Effective as of TBD)

[CONTENTS PAGE TO BE INSERTED]

Introduction

Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality management for specific types of engagements. ISA 220 (Revised),¹ for example, deals with the management of quality for audits of financial statements and establishes requirements for the engagement team. *[Placeholder to add additional explanation when proposed ISA 220 (Revised) is finalized.]* Law, regulation or relevant ethical requirements may also establish responsibilities for the firm in relation to the management of quality beyond those described in this ISQC. (Ref: Para. A1)

The Firm's System of Quality Management

3. When undertaking engagements, the firm and its personnel accepts their responsibility to act in the public interest. Acting in the public interest involves applying professional values, ethics and attitudes in making decisions that promote a commitment to quality, and take into consideration the legitimate interests of relevant stakeholders, in particular users of the firm's reports. The legitimate interests of relevant stakeholders may change over time and may change the manner in which the firm's engagements are performed.
4. The firm further promotes the public interest through establishing an environment, including a culture, decision-making process, actions, organization, leadership and resources that supports the performance of engagements in accordance with professional standards and applicable legal and regulatory requirements and judgments and conclusions that are appropriate.
5. A firm's system of quality management is designed to provide the firm with reasonable assurance that the firm achieves its objectives set out in paragraphs 15(a) and (b). The system of quality management comprises the following eight components that operate in an integrated manner, which are further explained in paragraph 19: (Ref: Para. A2–A3)
 - (a) The quality management process;

¹ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

- (b) Governance and leadership;
 - (c) Information and communication;
 - (d) Relevant ethical requirements;
 - (e) Acceptance and continuance of client relationships and specific engagements;
 - (f) Resources;
 - (g) Engagement performance; and
 - (h) The monitoring and remediation process.
6. Professional judgment in designing, implementing and operating the system of quality management is necessary for the establishment of a system of quality management that is designed to the nature and circumstances of the firm, the engagements it performs and the types of entities for whom such engagements are undertaken. Professional judgment involves applying relevant knowledge and experience to the facts and circumstances. (Ref: Para. A4)
7. Designing, implementing, and operating a system of quality management includes maintaining and updating the system to address:
- Changes in the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken; or
 - The results of the firm's monitoring activities, external inspections or other relevant information.

Authority of the ISQCs

8. ISQC 1 applies to all firms of professional accountants that perform audits or reviews of financial statements, or other assurance or related services engagements. *[To be updated in accordance with ISQC 2: ISQC 2 applies to engagement quality control reviewers who perform an engagement quality control review of an audit or review of financial statements, or other assurance or related services engagements.]*
9. The ISQCs contain the objective of the firm *[or the engagement quality control reviewer]* in following the ISQCs, and requirements designed to enable the firm *[or engagement quality control reviewer]* to meet that stated objective. In addition, they contain related guidance in the form of application and other explanatory material, as discussed further in paragraph 12, and introductory material that provides context relevant to a proper understanding of the ISQCs, and definitions.
10. The objective of the standard provides the context in which the requirements of the ISQC are set, and is intended to assist the firm *[or engagement quality control reviewer]* in:
- Understanding what needs to be accomplished; and
 - Determining what needs to be done to achieve the objective.
11. The requirements of the ISQCs are expressed using “shall.”
12. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- Explain more precisely what a requirement means or is intended to cover; and
 - Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in the ISQCs. Where appropriate, additional considerations specific to public sector audit organizations, or firms that operate as part of a network are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISQCs. They do not, however, limit or reduce the responsibility of the firm [or engagement quality control reviewer] to apply and comply with the requirements in the ISQCs.

13. The ISQCs include, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of the ISQCs. These are provided to assist in the consistent application and interpretation of the ISQCs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* published by IFAC includes the terms defined in the ISQCs.²

Effective Date

14. Systems of quality management in compliance with this ISQC are required to be established by TBD.

Objective

- ✓ 15. The [REDACTED] implement and operate a system of quality management that [REDACTED]
- (a) The firm and its personnel [REDACTED] in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
- (b) [REDACTED] issued by the firm or engagement partners [REDACTED] in the circumstances.

Definitions

16. In this ISQC, the following terms have the meanings attributed below:
- (a) Date of report – The date selected by the practitioner to date the report.
- (b) [REDACTED] (referred to as deficiency in this ISQC)
- This exists when:
- (i) The [REDACTED] in addressing a related quality risk or the response necessary to address a quality risk is absent. [REDACTED]
- (ii) A [REDACTED]; or
- (iii) A [REDACTED]
- see also A119 - repeat?
- difference between i and iii, example?

² The Glossary of Terms may also include descriptions of other terms found in the ISQCs to assist in common and consistent interpretation and translation, however which have not been subject to the IAASB's stated due process.

- (c) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).
- (d) Engagement partner³ – The partner or other individual 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.
- (e) Engagement quality control review – [*To be considered further in conjunction with ISQC 2*]
- (f) Engagement quality control reviewer – [*To be considered further in conjunction with ISQC 2*]
- (g) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert 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).⁴
- (h) External inspections – Inspections or investigations or other reviews, undertaken by an external oversight authority, of the firm’s system of quality management or engagements performed by the firm.
- (i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or where relevant, public sector equivalent. (Ref: Para. A5)
- (j) 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.
- (k) Monitoring – A process comprising ongoing and periodic evaluations of the design, implementation and operation of the system of quality management.
- (l) Network firm – A firm or entity that belongs to a network.
- (m) Network⁵ – A larger structure: (Ref: Para. A6–A7)
 - (i) That is aimed at cooperation, and
 - (ii) 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.
- (n) Network services – In relation to the firm’s system of quality management: (Ref: Para: A8–A10)

³ “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

⁴ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.

⁵ As defined in the Independent Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (Including the International Independence Standards)* (Code)

- (i) Information or assistance provided by, or available from, the network; or
- (ii) Requirements established by the network for quality objectives, quality risks or responses.
- (o) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (p) Personnel – Partners and staff.
- (q) Professional standards – IAASB Engagement Standards, as defined in the IAASB's *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*, and relevant ethical requirements.
- (r) Quality objectives (in relation to a system of quality management) – The objectives established by the firm that are what the firm needs to achieve to support the design, implementation and operation of the system of quality management.
- (s) Quality risk (in relation to a system of quality management) – A risk that has a reasonable possibility of occurring and a reasonable possibility of causing the quality objective(s) not to be achieved, before consideration of any related responses.
- (t) Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance.
- (u) Relevant ethical requirements (in relation to the ISQCs) – [*To be further considered: Extant definition:* Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with national requirements that are more restrictive.]
- (v) Remediation – A process to identify and implement corrective actions to address deficiencies identified in the firm's system of quality management.
- (w) [REDACTED]
[REDACTED] (Ref: Para. A11–A13)
 - (i) [REDACTED] are statements of what should, or should not, be done [REDACTED]
[REDACTED] Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) [REDACTED]s.
- (x) Root cause analysis – A process for investigating the underlying cause(s) of findings from the firm's monitoring activities, external inspections or any other relevant information.
- (y) Staff – Professionals, other than partners, including any experts the firm employs.
- (z) System of quality management – [REDACTED]
[REDACTED]s:
 - (i) Governance and leadership;
 - (ii) The quality risk assessment process;
 - (iii) Information and communication;

- (iv) Relevant ethical requirements;
- (v) Acceptance and continuance of client relationships and specific engagements;
- (vi) Resources;
- (vii) Engagement performance; and
- (viii) The monitoring and remediation process.

Requirements

Applying, and Complying with, Relevant Requirements

17. The individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ISQC relevant to their responsibilities, including application and other explanatory material, to understand the objective of this ISQC and to apply its requirements properly. (Ref: Para. A14)
18. The firm shall comply with each requirement of this ISQC unless, in the circumstances of the firm, the requirement is not relevant to the firm. (Ref: Para. A15)

System of Quality Management

19. The firm [REDACTED] a system of quality management, in accordance with [REDACTED] which [REDACTED] [REDACTED] such that the firm: (Ref: Para. A16–A17)
 - (a) Establishes an environment, including a culture, decision-making process, actions, organization and leadership, that supports the design and operation of the other components of the system of quality management ([REDACTED]);
 - (b) Identifies risks to the achievement of quality objectives for each component of the system of quality management and assesses the risks as a basis for determining the responses to those risks ([REDACTED]);
 - (c) Obtains, generates or uses relevant information and communicates relevant information internally and externally on a timely basis to support the design, implementation and operation of the system of quality management ([REDACTED]);
 - (d) Manages compliance with relevant ethical requirements, in order that the firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), fulfill their respective responsibilities in respect of relevant ethical requirements ([REDACTED]);
 - (e) Applies appropriate judgment when accepting or continuing client relationships and specific engagements ([REDACTED]);
 - (f) Appropriately obtains, develops, uses, maintains and allocates financial resources, human resources, technological resources, and intellectual [REDACTED] implementation and operation of the system of quality management in a timely manner; **(resources)**
 - (g) Appropriately [REDACTED] in accordance with professional standards and legal and regulatory requirements, including making judgments and reaching conclusions that are appropriate; and **(engagement performance)**

(h) [REDACTED] tion [REDACTED]
(the monitoring and remediation process)

Governance and Leadership

Quality Objectives

20. The firm [REDACTED] in accordance with paragraph 25(a), that [REDACTED] of the system of quality management, including the firm's culture, decision-making process, actions, organization and leadership. In doing so, [REDACTED] (Ref: Para A18)
- (a) The firm's [REDACTED] promotes a commitment to quality, including professional values, ethics and attitudes, throughout the firm and emphasizes the responsibility of all firm personnel for quality in conducting engagements or performing duties in relation to the system of quality management. (Ref: Para A20–A21)
- (b) The firm has leadership who are responsible and accountable for quality.
- (c) The firm's strategic decisions and actions reflect the firm's commitment to quality and [REDACTED] including that financial and operational priorities do not override the firm's commitment to quality. (Ref: Para A22–A24)
- (d) The firm is organized, and resources obtained and allocated, in a manner that supports the firm's strategic decisions and actions and the effective design, implementation and operation of the firm's system of quality management. (Ref: Para A25–A29)
- (e) The firm complies with the requirements of law, regulation, or professional standards that relate to the governance and leadership of the firm, if applicable. (Ref: Para A19)

Quality Risks

21. The firm [REDACTED] in relation to governance and leadership in accordance with [REDACTED]

Responses to the Quality Risks

22. The firm shall [REDACTED] to address the [REDACTED] in relation to governance and leadership. The responses that are designed and implemented by the firm [REDACTED]
- (a) [REDACTED] y for the system of quality management to [REDACTED] or [REDACTED] or, if appropriate, the firm's [REDACTED] or equivalent). The individual(s) assuming such responsibility and accountability shall: (Ref: Para. A30)
- (i) Demonstrate, through their actions, a commitment to quality, including professional values, ethics and attitudes and establish the expected values and behavior of all firm personnel for quality in conducting engagements and performing duties in relation to the system of quality management. (Ref: Para A20–A21)

- (ii) Exercise appropriate judgment about the legitimate interests of relevant stakeholders when making decisions in relation to the firm's strategic decisions and actions. (Ref: Para A22–A24)
- (iii) [REDACTED] and [REDACTED]s, including [REDACTED] to personnel that meet the eligibility criteria [REDACTED]. Such assignments shall include: (Ref: Para A31–A33)
- a. [REDACTED]s a whole; and
 - b. [REDACTED] rational responsibility for specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which [REDACTED] include assigning operational responsibility for compliance with [REDACTED]s and the [REDACTED]s.
- (iv) Obtain and allocate resources in a manner that supports the firm's strategic decisions and actions and the effective design, implementation and operation of the firm's system of quality management. (Ref: Para A25–A29)
- (b) [REDACTED]s)
[REDACTED] and the individual(s) [REDACTED]
[REDACTED] the matters set out in paragraph 22(a)(iii) to: (Ref: Para. A35–A37)
- (i) Evaluate whether they have fulfilled their responsibilities in relation to the system of quality management; and
 - (ii) Hold individuals accountable for the responsibilities assigned to them.
23. The individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii) shall have: (Ref: Para. A34)
- (a) The [REDACTED] and [REDACTED] to assume their assigned responsibility;
 - (b) A [REDACTED] to the individual(s) assigned ultimate responsibility and accountability for quality; and
 - (c) An [REDACTED] of their operational responsibilities for the firm's system of quality management.

Quality Risk Assessment Process

24. [REDACTED]
- (a) Governance and leadership;
 - (b) Information and communication;
 - (c) Relevant ethical requirements;
 - (d) Acceptance and continuance of client relationships and specific engagements;
 - (e) Resources; and
 - (g) Engagement performance.

25. In applying the quality risk assessment process, the firm shall: (Ref: Para. A38)
- (a) [REDACTED]s relevant to the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken, that are set at an appropriate level of granularity to enable the firm to identify and assess the quality risks. (Ref: Para. A39)
 - (b) As a basis for designing responses, [REDACTED] (Ref: Para. A40–A42)
 - (i) Understanding the conditions, events, circumstances, actions or inactions that affect the achievement of the quality objectives in order to identify the quality risks; and
 - (ii) [REDACTED] occurring and the relative effect of the quality risks on the achievement of the quality objectives.
 - (c) Design and implement responses to the [REDACTED] in order to reduce the quality [REDACTED]. The nature, timing and extent of such responses shall be based on and be responsive to the reasons for the assessment given to the quality risks. (Ref: Para. A43–A47)
26. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] (Ref: Para. A48)

Information and Communication

Quality Objectives

27. The firm [REDACTED] in accordance with paragraph 25(a), that address obtaining, generating or using relevant information and communicating relevant information internally and externally on a timely basis to support the design, implementation and operation of the system of quality management. In doing so, [REDACTED] (Ref: Para. A49)
- (a) The firm obtains or generates relevant and reliable information from both internal and external sources to support the design, implementation and operation of the components of the system of quality management. (Ref: Para. A50)
 - (b) The firm creates an environment that [REDACTED] among the firm and its personnel and emphasizes the responsibility of all firm personnel for communication in conducting engagements and performing duties in relation to the system of quality management. (Ref: Para. A51)
 - (c) The firm [REDACTED] a timely manner to firm personnel, such that they are able to understand and carry out their responsibilities in relation to the performance of engagements and duties in relation to the system of quality management. (Ref: Para. A51)
 - (d) The firm communicates information to external parties as required by law, regulation or relevant ethical requirements and obtains or communicates other information relevant to the system of

quality management, as appropriate, with parties that are external to the firm, unless prohibited by law or regulation. (Ref: Para. A51, A58–A64)

Quality Risks

28. The firm [REDACTED] in relation to information and communication in accordance with paragraph 25(b).

Responses to the Quality Risks

29. The firm s [REDACTED] accordance with paragraph 25(c) to address the quality risks in relation to information and communication. The responses that are designed and implemented by the firm [REDACTED]
- (a) [REDACTED]s that address the identification, capture, process and maintenance of information to support the operation of the components of the system of quality management. (Ref: Para. A50)
 - (b) C [REDACTED]
[REDACTED]
[REDACTED] Ref: Para. A44)
 - (c) Establishing policies or procedures that [REDACTED] between the firm and personnel performing [REDACTED] management, including the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the system of quality management.
 - (d) Communicating on a timely basis to firm personnel information in relation to the firm's system of quality management that is [REDACTED], including changes in the firm's system of quality management and the results of the evaluation of the system of quality management in paragraph 55. (Ref: Para. A52)
 - (e) Establishing clearly defined channels within the firm that enable reporting by firm personnel or external parties to appropriate individual(s) within the firm, of [REDACTED] in relation to the commitment to quality of the firm or its personnel, without fear of reprisal and establishing policies or procedures that enable the investigation of such concerns. (Ref: Para. A53–A57)
 - (f) Communicating information about the firm's system of quality management to parties external to the firm, [REDACTED] taking into consideration the following factors regarding the nature, timing and extent of such communications: (Ref: [REDACTED])
 - (i) The communication requirements set out in law, regulation or professional standards, where relevant;
 - (ii) The legitimate interests of the firm's relevant stakeholders; and (Ref: Para A59)
 - (iii) The nature of the engagements the firm performs and the types of entities for whom such engagements are performed. (Ref: Para A60)

new
requirement
added

Relevant Ethical Requirements

Quality Objectives

32. The firm [REDACTED]ctives, in accordance with paragraph 25(a), that address the fulfillment of responsibilities by the firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), in relation to the relevant ethical requirements. In doing so, the firm [REDACTED] (Ref: Para. A65–A66)
- (a) The firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), [REDACTED]ng of relevant ethical requirements, including the independence requirements.
 - (b) The firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), [REDACTED] in relation to the relevant ethical requirements, including the independence requirements.
 - (c) The firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), [REDACTED]of the relevant ethical requirements, including the independence requirements, in a timely manner.

Quality Risks

33. The firm shall identify and assess the quality risks in relation to relevant ethical requirements in accordance with paragraph 25(b).

Responses to the Quality Risks.

34. The firm shall design and implement responses in accordance with paragraph 25(c) to address the quality risks in relation to relevant ethical requirements. The responses that are designed and implemented by the firm [REDACTED] (Ref: Para. A67, A71)
- (a) Establishing policies or procedures that enable the firm and its personnel to:
 - (i) [REDACTED] with [REDACTED]including the independence requirements;
 - (ii) Evaluate whether [REDACTED]el; and (Ref: Para. A68)
 - (iii) In circumstances when the identified [REDACTED]e [REDACTED]y. (Ref: Para. A69)
 - (b) Establishing policies or procedures that [REDACTED] of the relevant ethical requirements, including the independence requirements, and which address:
 - (i) The evaluation of the significance of a breach and its effect on the fulfillment of the relevant ethical requirements;
 - (ii) Taking whatever actions might be available, as soon as possible, to address the consequences of a breach satisfactorily;
 - (iii) Determining whether to report a breach to relevant parties; and

- (iv) Fulfilling the responsibilities in relation to the provisions of the relevant ethical requirements, including the independence requirements, that set out actions to address identified breaches. (Ref: Para. A70)
- (c) [REDACTED]
requirements [REDACTED] [REDACTED] required by relevant ethical requirements to be [REDACTED]

Acceptance and Continuance of Client Relationships and Specific Engagements

Quality Objectives

35. The firm shall establish quality objectives, in accordance with paragraph 25(a), that address applying appropriate judgment when making decisions in relation to the acceptance or continuance of client relationships and specific engagements. In doing so, the [REDACTED] [REDACTED]
- (a) The firm [REDACTED] about the nature and circumstances of the engagement and the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance, before accepting and continuing the client relationship or specific engagement. (Ref: Para. A71a–A76)
 - (b) The firm [REDACTED] about the [REDACTED] including management, and, when appropriate, those charged with governance. (Ref: Para. A72–A76)
 - (c) The firm makes appropriate judgments a [REDACTED] nt in accordance with professional standards and applicable legal and regulatory requirements, including: (Ref: Para. A77–A78)
 - (i) The firm has [REDACTED] to perform the engagement, including that financial and operational priorities do not override the firm's commitment to quality;
 - (ii) The firm has [REDACTED] or the persons from whom the firm determines it is necessary to obtain information, to be able to perform the engagement; and
 - (iii) The firm is [REDACTED] including independence.
 - (d) The [REDACTED] in circumstances when subsequent to client or engagement acceptance the firm becomes aware of information that: (Ref: Para. [REDACTED])
 - (i) Would have caused it to decline an engagement had that information been available prior to accepting or continuing a client relationship or specific engagement; or
 - (ii) Affects the firm's decision to continue a client relationship or specific engagement.

Quality Risks

36. The firm shall identify and assess the quality risks in relation to the acceptance and continuance of client relationships and specific engagements in accordance with paragraph 25(b).

- (d) Firm personnel fulfill their responsibilities in relation to the system of quality management and demonstrate and are accountable for their commitment to quality. (Ref: Para. A88–A89)
- (e) The firm [REDACTED] to [REDACTED] the operation of the firm's system of quality management and the consistent performance of engagements. (Ref: Para. A90–A92)
- (f) The firm obtains or develops, and maintains, [REDACTED] to support the consistent performance of engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A93)
- (g) Firm personnel are able to a [REDACTED] [REDACTED] s. (Ref: Para. A92)

Quality Risks

39. The firm shall identify and assess the quality risks in relation to resources in accordance with paragraph 25(b).

Responses to the Quality Risks

40. The firm shall design and implement responses in accordance with paragraph 25(c) to address the quality risks in relation to resources. The responses that are designed and implemented by the firm shall include the following:

- (a) [REDACTED]
[REDACTED]
(Ref: Para. A86–A87)
- (b) Supporting the development of firm personnel through [REDACTED] that develops knowledge, skills, and abilities with respect to their roles and responsibilities and in response to changes in the nature and circumstances of the firm, the engagements it performs and the types of entities for whom such engagements are undertaken, including changes in relation to professional standards and technology. (Ref: Para. A84–A85)
- (c) [REDACTED] firm personnel's [REDACTED] and their maintenance and development of the technical competence, professional skills and professional values, ethics and attitudes to perform their roles. (Ref: Para. A88)
- (d) [REDACTED] appropriate to the nature and circumstances of the firm, that address compensation, promotion and other incentives with regard to firm personnel that demonstrate the firm's commitment to quality. (Ref: Para. A89)
- (e) [REDACTED] and maintained, or implemented, that include: (Ref: Para. A90–A92)
 - (i) Determining whether the technology [REDACTED] hat [REDACTED] nded purpose;
 - (ii) Establishing and maintaining an infrastructure or other resources appropriate to the firm's circumstances to support the firm's technological resources;
 - (iii) The [REDACTED] and

new - sufficiently
clear and
practical?

guidance in
appendix 1

- (iv) The firm personnel's responsibilities and supplementary actions that are required in order to use the technology at the engagement level or in the system of quality management.
- (f) Establishing policies or procedures addressing how intellectual resources are obtained, developed or maintained, that include the firm personnel's responsibilities and supplementary actions that are required in order to use the intellectual resources at the engagement level or in the system of quality management. (Ref: Para. A93)

Engagement Performance

Quality Objectives

41. The firm shall establish quality objectives, in accordance with paragraph 25(a), that address the appropriate performance and documentation of the engagement in accordance with professional standards and legal and regulatory requirements, including making judgments and reaching conclusions that are appropriate. In doing so, the firm [REDACTED] the following quality objectives:
- (a) Firm personnel understand and fulfill their responsibilities in respect of the engagement, including, as applicable: (Ref: Para. A94–A95)
 - (i) The appropriate direction and supervision of the engagement team and review of the work of the engagement team; and
 - (ii) The review by more experienced engagement team members of work performed by less experienced team members.
 - (b) Judgments made by engagement teams in performing engagements and the conclusions reached are appropriate and undertaken in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para: A96–A97)
 - (c) *[Placeholder for alignment with proposed ISA 220 (Revised) regarding the responsibilities of the engagement partner]*
 - (d) Engagement files are assembled [REDACTED] [REDACTED]ed, and engagement documentation is retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A101–A106)

Quality Risks

42. The firm shall identify and assess the quality risks in relation to engagement performance in accordance with paragraph 25(b).

Responses to the Quality Risks

43. The firm shall design and implement responses in accordance with paragraph 25(c) to address the quality risks in relation to engagement performance. The responses that are designed and implemented by the firm shall include establishing policies or procedures addressing:
- (a) Consultation, including firm personnel's responsibilities in relation to consultations, the matters on which consultation is required and how the conclusions should be agreed and implemented. (Ref: Para. A98–A99)

- (b) Differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality control reviewer or personnel performing duties in relation to the operation of the firm's system of quality management, including those who provide consultation. (Ref: Para. A100)
- (c) [REDACTED]

Monitoring and Remediation Process

44. The firm shall establish a monitoring and remediation process that evaluates the design, implementation and operation of the system of quality management, through: (Ref: Para. A107)
- (a) Designing and performing activities to monitor the design, implementation and operation of the responses;
 - (b) Evaluating the findings of the monitoring activities, the results of external inspections and other relevant information; and
 - (c) Taking appropriate actions based on the results of internal monitoring activities, external inspections and other relevant information.

Designing and Performing Activities to Monitor the Design, Implementation and Operation of the Responses

45. The firm shall determine the nature, scope and frequency of monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities. In doing so, the firm shall take into consideration: (Ref: Para. A108–A110)
- (a) The assessment of the quality risks and the design of the responses to the quality risks, including the classes of engagements where quality risks are more likely to occur or may result in a greater likelihood that a quality objective would not be met; (Ref: Para. A111)
 - (b) Changes in factors that have affected the firm's system of quality management; (Ref: Para. A112)
 - (c) The previous monitoring activities and remedial actions, including whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management; and (Ref: Para. A113)
 - (d) Other relevant information that may suggest deficiencies exist in the firm's system of quality management, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections. (Ref: Para. A113–A113a)
46. As part of its monitoring activities, the firm shall establish policies or procedures requiring the inspection of completed engagements. Such policies or procedures shall establish criteria that take into consideration the factors set out in paragraph 45 and include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm. (Ref: Para. A114–A117)
47. [REDACTED] In doing so, the firm shall:
- (a) Determine that those performing the monitoring activities have the competence, experience and knowledge and sufficient time to perform the monitoring activity and are objective in relation to the activity subject to monitoring; and

- (b) [REDACTED] (Ref: Para. A119–A121)

48. The firm shall determine whether the [REDACTED] and any other relevant information include [REDACTED] (Ref: Para. A118–A121)

considering findings or deficiencies? or findings on deficiencies

49. The firm [REDACTED] through considering the findings arising from the monitoring activities and the results of external inspections and any other relevant information and [REDACTED] (Ref: Para. A122)

Root Cause Analysis and Evaluating the Deficiencies

50. The firm shall [REDACTED] and in doing so shall: (Ref: Para. A123–A127)

- (a) Consider the nature of the deficiencies and their possible severity in determining the nature, timing and extent of the procedures to investigate the root cause;
- (b) Consider whether the deficiency is in the design, implementation or operation of a response; and
- (c) [REDACTED], through considering the severity and pervasiveness of the deficiencies.

Responding Appropriately to the Results of Internal Monitoring Activities, External Inspections and Other Relevant Information

51. In circumstances when a deficiency identified relates to an engagement and there is an indication that the report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm shall: (Ref: Para. A128)

- (a) [REDACTED] to comply with relevant professional standards and applicable legal and regulatory requirements; and
- (b) [REDACTED] legal advice.

52. The firm shall design and [REDACTED] [REDACTED]. In doing so, the firm shall determine whether the [REDACTED] (Ref: Para. A129–A130)

53. The individual(s) [REDACTED] the system or quality management or the individual assigned operational responsibility for the system of quality management, [REDACTED] [REDACTED] (Ref: Para. A131)

Ongoing Communication Related to Monitoring and Remediation

54. The [REDACTED] shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the system of quality management: (Ref: Para. A132)

- (a) A description of the monitoring activities performed;

- (b) The [REDACTED] by the firm through the findings from the firm's monitoring activities, the results of external inspections and other relevant information, [REDACTED] and [REDACTED]; and
 - (c) The [REDACTED] ss the deficiencies, including the planned communication to firm personnel and parties that are external to the firm, as necessary.
55. The firm shall communicate on a timely basis [REDACTED] n relation to the firm's monitoring and remediation process as described in paragraph 54 [REDACTED] o their responsibilities. The nature, timing and extent of the information communicated shall be sufficient to enable the firm personnel to take prompt and appropriate action in accordance with their responsibilities. (Ref: Para. A133–A135)
56. The firm shall communicate information in relation to the results of the firm's monitoring and remediation process, on timely basis, in accordance with paragraph 29(f).

Evaluating the Effectiveness of the System of Quality Management

57. T [REDACTED]
management [REDACTED]
[REDACTED] (Ref: Para. A137)
- (a) [REDACTED] s; or
 - (b) In circumstances when the [REDACTED] that indicate that the [REDACTED] e.
58. In circumstances when the firm's evaluation in paragraph 57 indicates that the firm has not achieved reasonable assurance in accordance with paragraph 15, the firm shall: (Ref: Para. A138)
- (a) [REDACTED] to firm personnel information relevant to their responsibilities about the deficiency(ies) and the remedial actions to be taken; and
 - (b) If appropriate, communicate relevant information about the firm's evaluation to parties that are external to the firm.

Considerations Relating to Networks

59. In circumstances when the firm operates as part of a network, the firm shall: (Ref: Para. A139–A141)
- (a) [REDACTED] that may be relevant to the firm's system of quality management and the expected form, timing and content of communications between the firm and the network in relation to the network services; and
 - (b) [REDACTED] that the firm [REDACTED] intends to use in its system of quality management.
60. In relation to the identified network services to be used by the firm, the firm shall:
- (a) Obtain an understanding of the [REDACTED]
[REDACTED], in order to evaluate and conclude whether, and the extent to which, the [REDACTED]
and (Ref: Para. A142–A143)

- (b) Determine the firm's responsibilities and supplementary actions that need to be implemented by the firm in order to use the services provided by the network. (Ref: Para. A144)

Monitoring and Remediation Process

- 61. If the network performs monitoring activities in relation to the firm's system of quality management, the [REDACTED] and include them in the evaluation of the results of the external inspections and any other relevant information, as required by paragraph 48. (Ref: Para. A145–A147)
- 62. If the monitoring activities performed by the firm identify deficiencies in the network's services, the firm shall communicate to the network relevant information about the identified deficiencies.
- 63. If deficiencies are identified in relation to the network services used by the firm, the firm shall:
 - (a) Understand the planned remedial actions by the network;
 - (b) Understand whether the network's remedial actions are effectively designed and implemented to address the deficiencies relevant to the firm and their related root cause(s); and
 - (c) Determine the supplementary remedial actions needed by the firm, if any.

Considerations Relating to Use of Service Providers

- 64. In circumstances when the firm intends to [REDACTED] in relation to its system of quality management, the firm shall: (Ref: Para. A148)
 - (a) Establish the nature and scope of the services, including the firm's responsibilities in using the services provided by the service provider; (Ref: Para. A149)
 - (b) Obtain an understanding of the service provider and the expected form, timing and content of communications between the firm and the service provider; (Ref: Para. A150)
 - (c) Determine that the reputation or technical competence, professional skills and professional values, ethics and attitudes of the service provider are appropriate in the context of the service provided; (Ref: Para. A151)
 - (d) Obtain an understanding of the service provider's processes in relation to the service, including how the service is evaluated and remediated; and (Ref: Para. A152)
 - (e) Conclude on whether it is appropriate to use the services of the service provider and periodically understand whether there are changes in the service provider's services or circumstances in relation to the matters in (a) to (d).
- 65. If [REDACTED] relation to the services provided by the service provider, either through the firm's monitoring activities or communications received from the service provider, the firm shall:
 - (a) Include the deficiency in the evaluation of the results of the external inspections and any other relevant information, as required by paragraph 48;
 - (b) Understand the planned remedial actions by the service provider and consider whether the service provider's remedial actions are effectively designed and implemented to address the deficiencies relevant to the firm and their related root cause(s);
 - (c) Determine the supplementary remedial actions needed by the firm, if any; and

- (d) Consider whether to continue using the services provided by the service provider.

Documentation

66. The firm shall prepare documentation of its system of quality management that is sufficient and appropriate to: (Ref: Para. A153–A155)
- (a) Support a consistent understanding of the system of quality management by firm personnel, including an understanding of their roles and responsibilities with respect to the firm's system of quality management;
 - (b) Support the consistent implementation and operation of the responses; and
 - (c) Provide evidence of the design, implementation and operation of the responses, such that the firm is able to evaluate the system of quality management.
67. The documentation shall include: (Ref: Para. A156)
- (a) The firm's quality objectives and quality risks;
 - (b) A description of the responses and how the firm's responses address the firm's quality risks;
 - (c) When relevant, the results of periodic performance evaluations, as contemplated by paragraph 22(b);
 - (d) In relation to the monitoring and remediation process:
 - (i) Evidence of monitoring activities performed;
 - (ii) The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information, including the identified deficiencies and their related root cause(s);
 - (iii) Remedial actions to address deficiencies and their related root cause(s), and the evaluation of the effectiveness of such remedial actions;
 - (v) Communications in relation to monitoring and remediation;
 - (vi) The evaluation of whether the system of quality management provides the firm with reasonable assurance in accordance with paragraph 15.
 - (e) [Placeholder for engagement quality control review]
68. In circumstances when the firm uses network services or service providers, the documentation shall include:
- (a) The network services or other services used by the firm in its system of quality management, to the extent that they include the matters set out in paragraph 67;
 - (b) The firm's basis for concluding on the appropriate use of the services.
69. The firm shall establish a period of time for the retention of documentation in relation to the system of quality management that is for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

Application and Other Explanatory Material

Scope of this ISQC (Ref: Para. 2)

- A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)⁶ and ISAE 3000 (Revised),⁷ also establish requirements for the engagement partner in relation to the management of quality at the engagement level.

The Firm's System of Quality Management (Ref: Para. 3–7)

- A2. Reasonable assurance is a high, but not absolute, level of assurance and is obtained when the firm's system of quality management reduces the risk that the objectives set out in paragraphs 15(a) and (b) are not achieved to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a firm's system of quality management. Such limitations include the reality that human judgment in decision-making can be faulty and that breakdowns in the firm's system of quality management may occur because of human error or behavior.
- A3. Within the system of quality management, the components operate in an integrated manner. For example, the quality risk assessment process is the component through which the firm establishes quality objectives, identifies and assesses quality risks and designs and implements responses for the remaining components of the system of quality management. Similarly, the monitoring and remediation process is the component through which the firm evaluates the design, implementation and operation of the system of quality management, i.e., it monitors the other components of the system of quality management and remediates as appropriate. Furthermore, aspects of the components may overlap, for example, certain quality objectives within the relevant ethical requirements component may be considered when accepting or continuing client relationships and specific engagements. Paragraphs 1–2 of Appendix 1 further explain a system of quality management.
- A4. Professional judgment is necessary in relation to the design, implementation and operation of the entire system of quality management, including decisions about:
- The quality objectives that should be established.
 - The application of the threshold above which quality risks are identified.
 - The assessment of the quality risks.
 - The appropriate responses to address quality risks.
 - The nature, timing and extent of the monitoring activities to monitor the design, implementation and operation of the responses.
 - The evaluation of the results of the monitoring activities, external inspections and other relevant information.

⁶ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁷ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

- How to appropriately respond to the results of monitoring activities, external inspections and other relevant information, including the nature and extent of communications about the results.
- Whether the system of quality management provides the firm with reasonable assurance in accordance with paragraph 15.
- The conclusion on whether, and the extent to which, a network service or service provided by a service provider is appropriate for use in the firm's system of quality management.

The nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken may affect the firm's judgments in relation to the system of quality management.

Definitions

Firm (Ref: Para. 16(i))

- A5. The definition of "firm" in relevant ethical requirements may differ from the definition set out in this ISQC. For example, the IESBA Code defines the "firm" as:
- (a) A sole practitioner, partnership or corporation of professional accountants;
 - (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.

In complying with the requirements in this ISQC, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Network (Ref: Para. 16(m))

- A6. The definitions of "network" or "network firm" in relevant ethical requirements may differ from the definitions set out in this ISQC. The IESBA Code also provides guidance in relation to the terms "network" and "network firm." Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ISQC in relation to networks apply to any structures that do not form part of the firm, but that exist within the network.
- A7. In some instances, the network may concentrate or centralize processes or activities in a particular operating unit or location, for example, the network may centralize the independence function or provide resources that perform certain engagement procedures from a central location for multiple engagements across the network. Such centralized processes or activities may also be established by other firms within the network. Throughout this ISQC, in circumstances when reference is made to a network, it includes centralized processes or activities established by the network or another firm within the network, which are used by the firm.

Network Services (Ref: Para. 16(n))

- A8. The network may impose requirements on firms within the network that are expected to be implemented by the firms in order to be a member of the network. Such requirements may include:
- Adopting the policies or procedures established by the network at the firm level and supplementing those policies or procedures, as necessary, in order to address the firm's jurisdictional circumstances.

- Specifying how the firm's governance structures should be established and how the firm's leadership is expected to interact with the network.
 - Prescribed quality objectives, quality risks and responses established at the network level, which are supplemented at the firm level with quality objectives, quality risks and responses addressing the firm's unique circumstances.
 - Being subject to the network's monitoring activities. In some instances these monitoring activities may relate to services provided by the network (e.g., monitoring related to the methodology that is developed and maintained by the network), and in other instances they may relate to monitoring of responses implemented at the firm level.
- A9. The assistance provided by, or available from, the network may include services that the firm is not required to implement, but may choose to do so. For example, the network may develop training modules that firms within the network may use voluntarily.
- A10. The network may provide other information that is relevant to the firm, for example, information about the findings from monitoring activities or results of external inspections in relation to other firms within the network, which may be relevant when the other network firms perform work in relation to the firm's engagements, such as in the capacity of a component auditor.

Response (Ref: Para. 16(w))

- A11. Policies are implemented through the actions of the firm and its personnel, or through their restraint from taking actions that would conflict with such policies.
- A12. Procedures may be mandated, through formal documentation or other communication, or may result from behaviors that are not mandated but are conditioned by the firm's culture.
- A13. This ISQC establishes requirements that set out the responses the firm is required to implement in relation to the quality risk assessment process and monitoring and remediation process.

Applying, and Complying with, Relevant Requirements (Ref: Para. 17–18)

- A14. In some instances the individual(s) assigned ultimate responsibility and accountability for the system of quality management may have operational responsibility for the system of quality management. There may also be circumstances when the individuals(s) assigned operational responsibility for independence and monitoring are the same as the individual(s) assigned ultimate responsibility and accountability for the system of quality management or the individual(s) assigned operational responsibility for the system of quality management, such as in the case of a smaller firm.
- A15. The requirements are designed to enable the firm to achieve the objective of this ISQC stated in paragraph 15. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective of this ISQC. This ISQC does not call for compliance with requirements that are not relevant. Paragraph 4 of Appendix 1 provides examples of the requirements of this ISQC that may not be relevant in the circumstances of a sole practitioner.

System of Quality Management (Ref: Para. 19)

- A16. In order for the firm to achieve the objective stated in paragraph 15, [REDACTED] all eight components collectively reduce, to an acceptable level, the risk of the system of quality management not achieving

the objectives in paragraph 15(a) and (b). The [REDACTED] and have a multitude of interrelationships and linkages among them. For example,

- The firm's governance and leadership, including the actions and tone of firm leadership, [REDACTED] in which the system of quality management operates.
- The quality risk assessment process is the [REDACTED] through which the firm establishes [REDACTED]. This process is [REDACTED] of the system of quality management, with the exception of the monitoring and remediation process.
- The [REDACTED] is the component [REDACTED] and [REDACTED]. In doing so, the firm evaluates all of the components of the system of quality management, including the monitoring and remediation component itself.
- The firm's decisions in relation to one component [REDACTED] [REDACTED]. For example, the firm may centralize the performance of certain engagement procedures in a central location for multiple engagements, in response to a quality risk relating to the firm's resources. However, doing so may create new risks within the engagement performance component for which a response is necessary, such as appropriate direction and supervision of the personnel in the central location.

A17. There are a variety of factors that may affect the firm's system of quality management that the firm may take into consideration in designing and implementing the system of quality management, including when identifying quality risks that affect the achievement of the firm's quality objectives. Examples of the internal and external factors include:

Internal Factors	External Factors
<ul style="list-style-type: none"> • The size and operating characteristics of the firm, including the firm's strategic decisions, such as those in relation to financial and operational matters, the geographical dispersion and the extent to which the firm concentrates or centralizes its processes or activities. • The nature of the engagements provided by the firm (e.g., the firm performs only compilation engagements or performs a variety of engagements, including audits of financial statements). • The nature of the entities to whom such engagements are undertaken or the industries in which they operate (e.g., engagements provided to owner-managed entities, entities that are listed 	<ul style="list-style-type: none"> • The firm's stakeholders, for example, users of the firm's reports, regulatory authorities, preparers and those charged with governance. • Professional standards, laws, and regulations. • Economic stability and social factors.

<p>entities or entities that are of significant public interest).</p> <ul style="list-style-type: none"> • In circumstances when the firm is within a network, the nature of the network, how the network is organized, the nature of what is performed at the network level, the network's requirements and expectations for the network firms, and the nature of what is provided by the network and the extent to which the firm uses it. 	
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Governance and Leadership (Ref: Para. 20–23)

- A18. The governance and leadership component provides the basis for the system of quality management, because the firm needs to organize itself, including its structure and assignment of responsibility, in order that the other components of the system of quality management can be developed. For example, in order to establish a system of quality management, the firm needs to identify the individual(s) responsible for its development. The governance and leadership component has a pervasive effect on the system of quality management, since it establishes the overall environment in which the system operates, including the structures that exist within the firm, the overall culture of the firm, the assignment of responsibility and how resources are obtained or allocated.
- A19. Law, regulation or other professional standards may prescribe additional matters related to the governance of the firm, for example, the firm may be required to follow an audit firm governance code that may incorporate specific governance principles and require adherence to specific provisions.

Culture (Ref: Para. 20(a) and 22(a)(i))

- A20. The firm's culture is an important factor in influencing the behavior of the firm's personnel, while at the same time accomplishing the firm's financial and operational goals. A firm with a quality-focused culture recognizes and reinforces the importance of professional values, ethics and attitudes through, for example, a commitment to:
- Technical competence and professional skills;
 - Ethical behavior;
 - Professional manner, for example, due care, timeliness, courteousness, respect, responsibility, and reliability;
 - Pursuit of excellence, for example, a commitment to continual improvement; and
 - Social responsibility.
- A21. A culture that promotes the conduct of quality engagements is likely to involve clear, consistent, frequent and effective actions, including communication, at all levels within the firm that emphasize the firm's commitment to quality. The tone at the top and the attitude to quality, including professional values, ethics and attitudes, is set by the individual(s) assigned ultimate responsibility and accountability for the system of quality management through their personal conduct, communication and actions. This is further shaped and reinforced by the firm's personnel who are expected to embed

or demonstrate the behaviors that confirm the firm's commitment to quality. The nature and extent of the actions of the individual(s) assigned ultimate responsibility and accountability for the system of quality management in establishing a culture may depend on a variety of factors, including the size, structure, geographical dispersion and complexity of the firm. For example, a smaller firm may be able to influence the desired culture through the direct interaction of firm leadership with the firm's personnel. Paragraph 5 of Appendix 1 provides examples of the actions that may be undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management to foster a culture of quality throughout the firm. Paragraph 6 of Appendix 1 explains how the culture of the firm may be influenced and supported by the network in circumstances when the firm belongs to a network.

Strategic Decisions and Actions and Relevant Stakeholders (Ref: Para. 20(c) and 22(a)(ii))

- A22. The firm may have a variety of stakeholders, including the network or other network firms, audit oversight bodies and other external bodies, those charged with governance of the firm's clients or users of the firm's reports. Relevant stakeholders with a legitimate interest are ordinarily those stakeholders who are affected by, or rely on, the work performed by the firm. For example, in the case of a firm that performs audits of financial statements of listed entities or entities that are of significant public interest, relevant stakeholders with legitimate interests ordinarily include shareholders and credit providers of such entities, as well as management and those charged with governance. On the other hand, the relevant stakeholders for a firm that only performs independent reviews of financial statements of non-listed entities or entities that are not of significant public interest may be more limited and would ordinarily include the entities' management and credit providers.
- A23. It is important that the firm's strategic decision-making process, which may include establishing a business strategy, takes into consideration how its decisions affect the quality of engagements performed, as well as the legitimate interests of its relevant stakeholders. This supports the firm's recognition of its professional values and ethics in the conduct of engagements. For example, the firm's decisions in relation to its business strategy may focus on the growth of non-assurance services (e.g., advisory or consulting services), that may affect how the firm obtains and allocates its resources, and may create competing priorities for the firm personnel between financial and operational priorities and achieving quality.
- A24. Stakeholders' perception of the quality of engagements performed by the firm may be improved when they consider that the firm supports and embeds a quality-focused culture that emphasizes professional values, ethics and attitudes in the conduct of engagements. Confidence may be increased if stakeholders are made aware of the firm's activities that it has undertaken to address quality, and the effectiveness of those actions. As a result, the firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective two-way communication between the firm and its stakeholders. Paragraph 28(f) addresses communication with parties external to the firm about the firm's system of quality management.

Organization of the Firm and Resources (Ref: Para. 20(d) and 22(a)(iv))

- A25. Organizing the firm in a manner that supports the effective design, implementation and operation of the firm's system of quality management may include:
- Establishing an internal firm structure that is commensurate with the size and operating characteristics of the firm and the types of engagements the firm provides; and

- Designating authority and responsibility within the firm.
- A26. The internal firm structure includes leadership and management as well as its organizational structure. Smaller firms may have simple leadership and management structures comprising a single partner with responsibility for the oversight of the firm. The leadership of a larger firm may comprise a chief executive officer or managing partner (or equivalent), managing board of partners (or equivalent) or other individual(s). In some circumstances, the firm may also have an independent governing body or board of partners that has executive oversight of the firm, or committees may be established to fulfill specific leadership functions. At a jurisdictional level, law or regulation may prescribe the leadership and management structure of the firm. Paragraph 7 of Appendix 1 includes examples of matters that may be considered in relation to the leadership and management structure of the firm.
- A27. In establishing the firm's leadership and management structure, the firm may consider:
- The required knowledge, experience, time and authority within the firm necessary to fulfill the identified roles; and
 - The need for other attributes that contribute to the firm's commitment to quality.
- A28. The organizational structure of the firm varies depending on its size and operating characteristics and may include operating units, operational processes, divisions or geographical locations and other structures the firm uses to achieve its quality objectives. In some instances, the firm may concentrate or centralize processes or activities in a particular operating unit or location, for example, performing certain engagement procedures from a central location for multiple engagements.

Resources

- A29. Obtaining resources and allocating them appropriately is essential for the proper functioning of the firm's system of quality management and supporting the performance of the firm's engagements. In order to achieve the firm's strategic goals the firm obtains, uses and allocates its resources in a manner that supports the achievement of such goals, which includes the firm's commitment to quality. Those assigned ultimate responsibility and accountability for the system of quality management are in a unique position to influence the nature and extent of resources that the firm obtains and maintains, and how the firm's resources are allocated, including the timing of when they are used. Resources include those set out in paragraph A81.

Firm Leadership Responsibility and Accountability (Ref: Para. 20(b) and 22(a))

- A30. Identifying those who are ultimately responsible and accountable for the system of quality management depends on the circumstances of the firm and may also be influenced by jurisdictional requirements. In some circumstances, there may be one individual who has responsibility for overseeing the firm's operations and allocating resources, for example, a chief executive officer or a managing partner. In other circumstances, responsibility for overseeing the firm's operations and allocating resources may be assigned to a group of individuals, for example, a managing board of partners.

Operational Responsibility (Ref: Para. 22(a)(iii))

- A31. The individual(s) assigned ultimate responsibility for the system of quality management is responsible and accountable for the system achieving the objective in accordance with paragraph 15. The

individual(s) assigned operational responsibility for the system of quality management as a whole is responsible and accountable for the design, implementation and operation of the firm's system of quality management. In some instances, operational responsibility for all of the matters in paragraph 22(a)(iii) may be assigned to one individual, particularly in the case of a smaller firm, or the individual(s) assigned ultimate responsibility for the system of quality management may assume all of these responsibilities.

- A32. The accountability of those assigned operational responsibility for the firm's system of quality management is established through periodic performance evaluations that assess the effectiveness of such individual(s), as required by paragraph 22(b), and may be further established by:
- Monitoring the firm's system of quality management and providing incentives for actions to be implemented, for example, by pre-defining internal quality measures that will be used to evaluate the results of the firm's monitoring activities, and evaluating such measures against targets.
 - Establishing appraisal and reward systems that address the responsibilities of such individual(s) and promote personal characteristics that support and reinforce the firm's view on the importance of quality.
- A33. In some cases, the firm may assign responsibility for specific aspects of the system of quality management, in addition to assigning operational responsibility for the matters set out paragraph 22(a)(iii). For example, the individual who has operational responsibility for independence may also be assigned broader responsibility related to the firm's compliance with all relevant ethical requirements.
- A34. The firm may consider whether additional criteria in relation to the eligibility of the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii) are necessary, in the circumstances of the firm. For example, in some cases, such as a larger firm, it may be appropriate for the individual(s) assigned operational responsibility for matters related to independence to be autonomous from the service lines within the firm, in order that decisions in relation to independence are undertaken in an impartial manner.

Performance Evaluations (Ref: Para. 22(b))

- A35. The performance evaluations apply to the individual(s) assigned ultimate responsibility for the system of quality management and the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii). Given the unique position of the individual(s) assigned ultimate responsibility for the system of quality management, the performance evaluations may be undertaken by the firm's network, an independent non-executive member of the firm's governing body or a special committee overseen by the firm's governing body or the firm may appoint an external service provider to perform the evaluation. In the case of smaller firms, it may not be practicable to perform performance evaluations, however in such cases, the results of the firm's monitoring activities may provide an indication of the performance of the assigned ultimate responsibility for system of quality management and the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii).
- A36. Periodic performance evaluations of individual(s) within the firm may promote accountability of such individual(s) for the responsibilities assigned to them in relation to the system of quality management. In considering the performance of individuals, the firm may take into consideration:

- The results of the firm's monitoring activities in relation to aspects of the system of quality management that relate to the responsibility of the individual, for example, independence in relation to the individual(s) assigned operational responsibility for independence;
- The actions taken by the individual(s) in response to deficiencies identified that relate to their area of responsibility and their related root causes and the effectiveness of such actions.

A37. The results of the performance evaluations may be positive, i.e., they may indicate that firm leadership has fulfilled their responsibilities in terms of this ISQC. A positive outcome may be rewarded through remuneration or other incentives. On the other hand, when the results of the performance evaluations are negative, corrective actions may be taken by the firm to address performance issues that are identified and that may affect the firm's achievement of its quality objectives.

Quality Risk Assessment Process (Ref: Para. 24–26)

A38. The quality risk assessment process is the component through which the firm establishes quality objectives [REDACTED] and [REDACTED] es. This process is applied to the other components. This ISQC does not require the firm to apply the quality risk assessment process to the monitoring and remediation component, although the firm may voluntarily do so. Instead, this ISQC establishes requirements in relation to the monitoring and remediation process that set out the policies or procedures that the firm is required to implement in order to establish an effective monitoring and remediation process.

Establish Quality Objectives (Ref: Para. 25(a))

A39. The quality objectives established by the firm in relation to each component may include quality objectives that are more granular than the quality objectives required by this ISQC in relation to the various components, in order to reflect the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken. [REDACTED] m [REDACTED] y in the circumstances of the firm. Paragraph 8 of Appendix 1 explains circumstances when more granular quality objectives may be appropriate.

Identify and Assess Quality Risks (Ref: Para. 25(b))

A40. The firm applies [REDACTED] in [REDACTED] including when making decisions about [REDACTED] and the [REDACTED]. The process may involve a combination of ongoing and periodic risk identification and assessment procedures, including:

- Identifying the risks that need to be addressed by the firm in order to reduce the risk to an acceptably low level, i.e., those risks that have a reasonable possibility of occurring and a reasonable possibility of causing a quality objective(s) not to be achieved. There is a reasonable possibility of a risk occurring when the likelihood of its occurrence is more than remote. Similarly there is a reasonable possibility of the risk causing a quality objective(s) not to be achieved when the likelihood of the quality objective not being achieved is more than remote.
- Assessing the quality risks for the purpose of designing a response that appropriately addresses the quality risk.

how
practical is
this? sounds
complicated
and difficult
to
implement.

A41. Under this ISQC, [REDACTED], i.e., [REDACTED]
[REDACTED] the firm [REDACTED] Such risks are not considered to be a quality risk. In determining whether a quality risk has a reasonable possibility of occurring and a reasonable possibility of causing a quality objective(s) not to be achieved, the firm understands and considers the conditions, events, circumstances, actions or inactions that give rise to the risk. The conditions, events, circumstances, actions or inactions that give rise to a quality risk [REDACTED]
[REDACTED]

A42. The [REDACTED] of the quality risks ordinarily focuses on understanding the likelihood of the quality risks, taking into account the identified conditions, events, circumstances, actions or inactions, and the degree to which the quality risks would affect the achievement of the quality objectives should they occur [REDACTED] In assessing the likelihood of the quality risks, the firm may consider the expected frequency [REDACTED] In assessing the degree of the effect of the quality risk on the achievement of the quality objective, the firm may consider:

- The rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk.
- The duration of time of the effect of the quality risk after it has occurred.

[REDACTED] dix 1 provide examples of how the rate at which the effect of a quality risk takes place, the amount of time that the firm has to respond to a quality risk or the duration of time of the effect of the quality risk after it has occurred, [REDACTED]
[REDACTED]

Design and Implement Responses to Quality Risks (Ref: Para. 25(c))

A43. The firm applies professional judgment in designing and implementing responses to address the quality risks, for example, when making decisions about the most appropriate response to address a quality risk. The [REDACTED]
[REDACTED] i.e., the responses in paragraphs 22, 29, 34, 37, 40, and 43. The firm's responses, including the required responses, are required to be designed and implemented in a manner that effectively [REDACTED] For example, in relation to engagement performance, in addition to establishing policies or procedures for engagement quality control reviews for audits of financial statements of listed entities, [REDACTED]
[REDACTED] ect to an engagement [REDACTED]
[REDACTED] w (e.g., specified reviews of engagement team work on significant risks or reviews by individuals within the firm who have specialized technical expertise).

A44. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be supplementary actions needed at an engagement level in order for a response to operate as designed. For example, the firm may appoint suitably qualified and experienced personnel to provide technical advice to engagement teams, and in doing so may prescribe specific matters that need to be consulted on by the engagement team. However the engagement team has a responsibility to identify when such matters occur and to initiate such consultation as required by the firm's policies or procedures. [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] ISA 220 (Revised), ISRE 2400 (Revised) and ISAE 3000 (Revised) establish

requirements for the engagement partner in relation to the management of quality at the engagement level. ISA 220 (Revised) further requires that *[placeholder to set out specific requirements of ISA 220 (Revised) when it is finalized]*.

A44a. Certain responses to the quality risks may be designed to detect deviations in the system of quality management in order that such deviations are promptly corrected. Paragraph A110 further explains the difference between responses designed to detect deviations and responses that are considered part of the firm's monitoring activities.

Nature, Timing and Extent of the Firm's Response

A45. The nature, timing and extent of the response is dependent on factors such as:

- The firm's assessment of the quality risk, i.e., how likely it is to occur and the degree to which it may affect the achievement of the quality objectives. A quality risk that has a higher probability of occurring or a may have an extensive effect on the achievement of a quality objective may require a more rigorous response from the firm in order to reduce the risk to an acceptably low level.
- The nature of the risk, i.e., the conditions, events, circumstances, actions or inactions that give risk to the quality risk. For example, if the firm's quality risk relates specifically to a particular industry or category of clients (e.g., audits of financial statements of listed entities), the firm's responses may require specific actions in relation only to clients in the industry or that are within the category, rather than all engagements performed by the firm.
- The size and complexity of the firm. For example, in a smaller firm, due the concentration of the firm's operations, the closer oversight by the firm's leadership may be an effective and appropriate response to certain risks. In addition, in some circumstances, the response may be more effectively established at an engagement level, for example, a smaller firm may perform only a few engagements of a specific type and it may be more effective for the quality risk to be addressed directly at the engagement level rather than establishing formal policies or procedures at the firm level that are applied at the engagement level.

In some cases, the firm may design and implement a response that addresses multiple quality risks across multiple components. Paragraph 11 of Appendix 1 provides examples of factors that may be considered by the firm in relation to the design of a response.

A46. Structured documentation of the firm's responses may not be necessary in all circumstances. For example, the firm may establish policies or procedures that are stated in communications or implied through the actions of firm leadership. However, when policies or procedures are not formally documented, it may be possible that firm personnel are not aware of such policies or procedures or they might not be followed. The need for formal policies or procedures may be greater for firms that have many personnel or that have geographical dispersion, in order to achieve consistency across the firm.

A47. The responses designed and implemented to address a quality risk in one component may affect the quality risks and responses of another component. For example, the implementation of new engagement software may create new quality risks within the engagement performance component for which a response is necessary, such as increased direction, supervision and review at the engagement level.

Determining Whether the Quality Objectives, Quality Risks and Responses Remain Appropriate (Ref: Para. 26)

A48. Quality objectives, quality risks or responses in relation to a component or components [REDACTED] [REDACTED], the engagements performed by the firm and the types of entities for whom the engagements are undertaken and other internal or external factors, such as new or amended law, regulation, or professional standards. They [REDACTED] external inspections or other relevant information. Since the eight components of the system of quality management are inter-related, any revisions to the quality objectives, risks or responses in one component may affect other components.

Information and Communication (Ref: Para. 27–29)

A49. Obtaining or generating and communicating information is generally an ongoing process that involves all firm personnel and encompasses the dissemination of information within the firm and externally.

A50. Relevant and reliable information includes information that is accurate, complete, timely and valid to support the proper functioning of the firm's system of quality management. Paragraph 29(a) requires the firm to establish policies or procedures to address the identification, capture, process and maintenance of information. Such policies or procedures may identify and define the information needs to support the operation of the components of the system of quality management and level of specificity of such information. The information systems that enable the operation of such policies or procedures may be manual or automated, and may be integrated. The range and sophistication of such information systems may depend on factors such as the complexity and volume of the information, the source of the data, how the information will be used and disseminated, including the timeliness in which the information is needed, or the size and complexity of the firm. Information systems, or how the data is obtained, may be embedded within the firm's responses, for example, the firm's audit software tool may enable the firm to obtain information relevant to the operation of the system of quality management. Paragraph 12 of Appendix 1 provides examples of the information that is relevant in supporting the functioning of the components of the system of quality management.

A51. Communication is the means through which the firm and its personnel share relevant information throughout the firm to support the proper functioning of the firm's system of quality management and the management of quality at the engagement level. Parties with whom two-way communication is undertaken may include:

- Engagement teams. For example, information that is obtained during the firm's acceptance and continuance process may be relevant to planning and performing the audit engagement in accordance with the ISAs, or may be relevant to the engagement team in order to fulfill their responsibilities under ISA 220 (Revised). Accordingly, such information may be communicated to engagement teams. As the engagement progresses, the engagement partner may need to update the firm's information about the client, such as in respect of changes in the client's organizational structure.
- Personnel performing duties in relation to the operation of the firm's system of quality management, including the individual(s) assigned ultimate responsibility and accountability or the individual(s) assigned operational responsibility for the firm's system of quality management.

- Parties that are external to the firm, which may include the network, network firms, external oversight authorities, users of the firm's reports, management or those charged with governance of the firm's clients, external service organizations or the firm's legal counsel.

Such two-way communication may also be among firm personnel or between firm personnel, and with external parties. Paragraphs 13–17 of Appendix 1 provide examples of the matters that may be communicated between the firm and firm personnel or external parties, or among them, and it explains the methods of communication that may be used in various circumstances.

- A52. Paragraph 55 requires the firm to communicate on a timely basis to firm personnel information in relation to the firm's monitoring and remediation process that is relevant to their responsibilities, i.e., when the firm identifies information arising from its monitoring and remediation process that is relevant to the firm personnel, such information is communicated in a timely manner. Such communications may form part of the annual communication to firm personnel of matters related to the firm's system of quality management. Paragraph A63 sets out other information that may be communicated on an annual basis.

Complaints and Allegations (Ref: Para. 29(e))

- A53. Establishing channels that enable reporting of complaints and allegations and policies or procedures to deal with them supports the firm's culture that promotes a commitment to quality, including professional values, ethics and attitudes.
- A54. Complaints and allegations may originate from within or outside the firm and they may be made by firm personnel, clients or other third parties. Complaints and allegations may relate to the failure of the work performed by the firm to comply with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's system of quality management. A complaint or allegation may indicate that there is a deficiency in the system of quality management that would be considered in accordance with paragraph 48.
- A55. Law, regulation or relevant ethical requirements may establish responsibilities for the firm or its personnel in circumstances where complaints or allegations arise, such as an obligation on the firm to report the matter to an authority outside the firm. For example, section 260 of the IESBA Code addresses the professional accountant's responsibility in relation to non-compliance with laws or regulations that may be relevant in circumstances when the work performed by the firm or the actions of the firm or its personnel has resulted in non-compliance with laws or regulations.
- A56. In identifying an appropriate individual(s) within the firm to whom complaints and allegations are communicated, the firm may take into consideration factors such as whether the individual(s) has:
- The experience, knowledge, time and appropriate authority within the firm needed to assume the role; and
 - A direct reporting line of communication to the individual(s) assigned ultimate responsibility for the system of quality management.
- A57. The firm may also establish policies or procedures for the identification of an individual(s) responsible for supervising the investigation of the complaint that take into consideration whether the individual(s):
- Has the experience, knowledge, time and appropriate authority within the firm to undertake the investigation; and

- Is otherwise not involved in the engagement or has sufficient objectivity from the area or personnel of the firm subject to the investigation.

The individual(s) supervising the investigation may involve legal counsel as necessary. In the case of a smaller firm, it may not be practicable for the partner supervising the investigation not to be involved in the engagement or other subject matter of the investigation. As a result, such firms may use the services of an external person to carry out the investigation into complaints and allegations, for example, legal counsel or a consultant.

Communication with External Parties

- A58. The firm may communicate information about the firm's system of quality management to parties external to the firm in a variety of ways, for example, through transparency reports, audit quality reports or marketing publications. In some circumstances, the firm may communicate specific information directly to external parties that is not made available publicly, for example, information about the results of the firm's monitoring and remediation process may be communicated directly to external parties.
- A59. Relevant stakeholders may include shareholders and credit providers of the entities to whom the firm provides services. Information about the firm's system of quality management may also be useful for (i) other firms when such firms use the work of the firm in the performance of engagements (e.g., in relation to a group audit), or (ii) management or those charged with governance (e.g., in evaluating how the firm manages the quality of the firm's engagements as a basis for determining whether to appoint the firm).
- A60. The nature of the engagements the firm performs and the types of entities for whom such engagements are performed may affect the nature, timing and extent of the communication to external parties. For example, the firm may determine it appropriate to prepare a publication with information about its system of quality management that is publicly available in circumstances when the firm performs audits of financial statements of listed entities or entities that may be of significant public interest, for example because they have a large number and wide range of stakeholders or due to their nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.
- A61. Paragraph 29 requires the firm to establish quality objectives that address the communication of information externally that is relevant and timely. Information that is relevant and timely may possess attributes such as being:
- Specific to the circumstances of the firm and prepared and presented in a timely manner. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information become overly standardized and less useful over time.
 - Presented in a clear and understandable manner that is neither misleading nor would inappropriately influence the users of the communication; and
 - Accurate and complete in all material respects and does not contain information that is misleading.

A62. In determining the content of the information communicated about the firm's system of quality management, the firm may take into consideration:

- The requirements of law or regulation or other professional standards.
- The information needs of the users for whom the communication is intended. In considering what information is useful for the users' of the firm's communications, the firm may take into consideration matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources, for example, information located on the firm's website.
- The nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken.

A63. Information that may be communicated about the firm's system of quality management may focus on how the firm has responded to emerging developments and changes in its circumstances, including how the system of quality management has been adapted to respond to such changes. Other information that may be communicated includes:

- A description of the firm's structure, including the structure of its network.
- A description of the firm's leadership structure and profiles of the individuals within firm leadership.
- Information about the firm's measures to support engagement quality, such as:
 - An overview of the responses the firm has implemented to address governance and leadership, including information about the firm's culture that promotes a commitment to quality;
 - An overview of the firm's information and communication, including how it has established effective two-way communication within the firm and its engagement with external stakeholders;
 - An overview of the quality risks that have been assessed as more severe or pervasive and the responses the firm has designed and implemented to address such risks;
 - An overview of the firm's monitoring activities and its process for identifying and evaluating deficiencies; or
 - In circumstances when the firm belongs to a network, the nature of the services that the firm uses which are provided by the network.
- The extent to which the firm uses service providers in relation to its system of quality management.
- The results of the firm's monitoring and remediation process in accordance with paragraph 56, or, if paragraph 58 is relevant, an indication that the firm has not achieved reasonable assurance in accordance with paragraph 15.
- Information about the firm's internal indicators of engagement quality.

A64. In some cases, the firm may describe the limitations of the information provided, for example, if the firm presents information about the firm's internal indicators of engagement quality, the firm may

consider explaining the limitations of such indicators, including that the indicators may not be comparable across firms, or between periods.

Relevant Ethical Requirements (Ref: Para. 32–34)

A65. Relevant ethical requirements establish the principles of professional ethics, which ordinarily include:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

For example, Section 110 of the IESBA Code sets out the fundamental principles of ethics that establish the standard behavior expected of a professional accountant. Section 120 of the IESBA Code includes the conceptual framework, which establishes the approach that an accountant is required to apply to assist in complying with those fundamental principles. Parts 2 and 3 of the IESBA Code set out additional material that address specific topics relevant to complying with the fundamental principles, for example, responding to non-compliance with laws and regulations and conflicts of interest.

A66. Relevant ethical requirements may also include provisions in relation to independence. For example, Parts 4A and 4B of the IESBA Code include specific provisions that require a firm to be independent when performing audits or reviews of financial statements or other assurance engagements. The IESBA Code sets out provisions that address specific circumstances when threats to the firm's independence may arise, for example, provisions addressing financial interests and relationships, the provision of non-assurance services to an audit client and the long association of personnel with an audit or assurance client. Law or regulation in a jurisdiction may also contain provisions addressing independence, for example, in relation to mandatory tendering and rotation or the provision of non-assurance services.

A67. Paragraph 34 includes responses that the firm is required to implement to address quality risks in relation to relevant ethical requirements, including independence requirements. For example, obtaining confirmations of compliance with the independence requirements from firm personnel supports the firm in addressing compliance with independence requirements, demonstrates the importance that the firm attaches to independence and makes the issue current for, and visible to, its personnel. The responses in other components of this ISQC may also address the fulfillment of relevant ethical requirements, for example, paragraph 29 of this ISQC contains required responses addressing information and communication to support the operation of the components of the system of quality management. This includes responses for information and communication to support the operation of the relevant ethical requirements component, such as:

- Communicating the independence requirements to all firm personnel and others subject to independence requirements, as applicable (including network firm personnel).
- Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as:

- Communicating information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
- Communicating circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
- Prompt communication of any breaches of the relevant ethical requirements, including the independence requirements.
- Establishing information systems that record and maintain information in relation to independence.

Other responses that the firm may design to address the quality risks include, for example, establishing policies and procedures that set out the appropriate length of service of personnel performing audits or reviews of financial statements or other assurance engagements, taking into consideration the requirements of relevant ethical requirements and the associated quality risk.

- A68. In evaluating whether an identified threat is at an acceptable level, the firm may consider whether a reasonable and informed third party, who weighs all the relevant facts and circumstances that the firm knows, or could reasonably be expected to know, at the time the evaluation is made, would likely conclude that the firm complies with the principles of the relevant ethical requirements.
- A69. In circumstances when the identified threats are not at an acceptable level, the threats may be addressed by:
- Eliminating the circumstances that are creating the threat;
 - Reducing the threat to an acceptable level through applying safeguards; or
 - Declining or ending the engagement.
- A70. Relevant ethical requirements may include specific requirements regarding how the firm is required to respond to a breach of the relevant ethical requirements, including the independence requirements. For example, the IESBA Code⁸ sets out requirements for the firm in the event of a breach of the independence requirements, which includes communication with those charged with governance of the client.
- A71. [*Placeholder – public sector considerations to be further developed*] Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in designing the responses to the quality risks in relation to independence, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.

⁸ See paragraphs R400.80–R400.87 of the IESBA Code.

Acceptance and Continuance of Client Relationships and Specific Engagements (Ref: Para. 35–37)

The Nature and Circumstances of the Engagement (Ref: Para. 35(a))

A71a. The information obtained regarding the nature and circumstances of the engagement may include matters such as:

- The industry of the entity for whom the engagement is being undertaken and relevant regulatory factors;
- The nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed; and
- The applicable criteria to be applied to the subject matter information (e.g., the applicable financial reporting framework in the case of an audit of financial statements).

Integrity and Ethical Values of the Client, including Management, and, When Appropriate, Those Charged with Governance (Ref: Para. 35(a), 35(b) and 37(a))

A72. The extent of information regarding the integrity and ethical values of the client needed to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements depends on various factors, for example, the nature of the entity for whom the engagement is being performed, including the complexity of its ownership and management structure. Paragraph 20 of Appendix 1 provides examples of the information that the firm may obtain or consider in relation to the integrity and ethical values of the client.

A73. The firm may obtain the information from a variety of internal and external sources, for example:

- In the case of an existing client, consideration of matters that have arisen during the current or previous engagements, if applicable.
- In the case of a new client, inquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements.

Paragraph 21 of Appendix 1 provides examples of other sources of information.

A74. The firm may need to communicate the information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance to the engagement team as it may be relevant to the performance of the engagement. For example, ISA 315 (Revised)⁹ requires the engagement team, in identifying risks of material misstatement, to take into account information obtained from the client acceptance or continuance process.

A75. Relevant ethical requirements may require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, the IESBA Code¹⁰ requires the firm to make inquiries of an existing or predecessor firm when accepting an engagement that is an audit or review of financial statements. The IESBA Code¹¹ also requires the predecessor auditor, on request by the

⁹ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁰ Paragraph R320.8 of the IESBA Code.

¹¹ Paragraph R360.22 of the IESBA Code.

proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor.

- A76. [*Placeholder – public sector considerations to be further developed*] In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, the firm's responses addressing the quality risks arising from the acceptance and continuance of client relationships and specific engagements may involve using the information obtained at the engagement level in performing risk assessments and in carrying out reporting responsibilities.

The Firm's Ability to Perform the Engagement (Ref: Para. 35(c))

A77. The firm's ability to perform the engagement may depend on factors such as whether the firm:

- Has the technical competence relevant to the engagement, and knowledge of the entity's industry;
- Is able to fulfill relevant ethical requirements; and
- Has the time and resources to perform the engagement.

Paragraph 22 of Appendix 1 provides examples of factors the firm may consider in relation to its ability to perform the engagement.

- A78. Relevant ethical requirements may include specific requirements that need to be considered before accepting or continuing a client relationship or specific engagement. For example, the IESBA Code¹² requires that reasonable steps be taken to identify circumstances that might create a conflict of interest before accepting a new client relationship and further requires remaining alert to changes in the nature of services, interest and relationships that might create a conflict of interest. The IESBA Code also requires the firm to consider conflicts of interest that might exist or arise due to interests and relationships of a network firm in circumstances when the firm is a member of a network.

Withdrawal from an Engagement (Ref: Para. 35(d))

A79. The firm's response to address circumstances when information becomes available to the firm that may have affected the firm's decision to accept or continue a client relationship or specific engagement may include establishing policies or procedures that set out the actions to be taken when such information becomes available, such as:

- Undertaking appropriate consultation within the firm or with legal counsel.
- Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement.
- Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the firm might take based on the relevant facts and circumstances, and when it is determined that withdrawal is an appropriate action, informing them of this decision and the reasons for the withdrawal.
- If the firm withdraws from the engagement, considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from

¹² Paragraphs R310.5 and R310.6 of the IESBA Code.

both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

Circumstances when the Firm is Obligated to Accept or Continue a Client Relationship or Specific Engagement (Ref: Para. 37(c))

A80. There may be circumstances when the firm is obligated to accept or continue a client relationship or specific engagement despite there being information that would have caused the firm to decline the engagement. For example, jurisdictional laws and regulations may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, auditors are appointed through statutory procedures. In such circumstances, the firm adapts the performance of the engagement, for example, by adjusting the nature, timing and extent of the procedures undertaken during the engagement to respond to the information. However, it may not be possible to adapt the procedures such that the firm is satisfied that the matter is adequately addressed and the firm may therefore respond by appropriately addressing the issue in the engagement report. For example, in an audit of financial statements if the firm is concerned with the integrity of management, the firm may determine that it is unable to rely on the representations of management (written or oral) and audit evidence more generally.¹³

Resources (Ref: Para. 38–40)

A81. Resources at the firm level include:

- Financial resources that are available to the firm.
- Human resources who have appropriate competence and capabilities.
- Technological resources, for example, application systems and hardware.
- Intellectual resources, for example, the firm's development of a methodology or guides

A82. Financial resources are necessary for obtaining, developing and maintaining the human resources, technological resources and intellectual resources that are needed to support the functioning of the firm's system of quality management and the performance of engagements. The IESBA Code¹⁴ explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.

A83. Given that resources are obtained and developed over time, it is necessary for the firm to anticipate its future resources needs. Resource needs may change over time as a result of changes in the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken. The resources themselves may also change, for example, the firm may experience a high staff turnover that affects how the firm allocates its resources to engagements. Paragraph 22(a)(iv) requires the individual(s) assigned ultimate responsibility for the system of quality management to be responsible for obtaining and allocating resources in a manner that supports the firm's strategic decisions and actions and the effective design, implementation and operation of the firm's system of quality management.

¹³ See paragraphs 18 and 20 of ISA 580, *Written Representations*

¹⁴ Paragraph 330.3 A2 of the IESBA Code.

Human Resources (Ref: Para. 38(b)–38(d) and 40(a)–40(d))

A84. Attracting, developing and retaining human resources ordinarily involves the following processes:

- Recruitment. Recruitment strategies that support the firm's system of quality management may include a focus on selecting individuals who have the ability to develop the technical competence, professional skills and professional values, ethics and attitudes necessary to perform engagements and other duties within the firm.
- Training and continuing professional development. Training programs and actions that encourage firm personnel to engage in continuing professional development support the performance of engagements.
- Performance evaluation.
- Career development and promotion.
- Compensation.

A85. The International Education Standards (IES), which are issued by the International Accounting Education Standards Board (IAESB), establish standards for professional accounting education that prescribe the technical competence and professional skills, values, ethics, and attitudes for professional accountants, and may provide useful guidance for the firm in determining the appropriate technical competence, professional skills and professional values, ethics and attitudes of its personnel. For example, IES 7¹⁵ includes requirements for the continuing professional development of professional accountants and IES 8 (Revised)¹⁶ prescribes the professional competence that professional accountants are required to develop and maintain when performing the role of an engagement partner for an audit of financial statements. Paragraph 23 of Appendix 1 provides examples of how the professional values, ethics and attitudes of firm personnel may be developed.

A86. When assigning personnel to engagements or other roles, the firm may organize its personnel in a variety of ways. In some circumstances, the firm may concentrate or centralize its processes or activities in a particular operating unit or location, for example, certain engagement procedures may be performed for multiple engagements in a centralized location. The firm may also determine it appropriate to obtain specialist skills from other network firms or service providers, such as other professional services firms. In such cases, the firm may need to design responses to address the objectives in this ISQC in relation to human resources, to the extent that they apply to such individual(s), for example, how the firm establishes that such individual(s) have the technical competence, professional skills and professional values, ethics and attitudes to effectively perform the engagement. Paragraph 24 of Appendix 1 provides examples of how the firm may assign its personnel to engagements and paragraph 25 of Appendix 1 includes factors that the firm may consider when assigning personnel to engagements and determining the level of supervision required.

A87. Given the importance of the role of the engagement partner, it may be appropriate for the firm to communicate the identity and role of the engagement partner to key members of client management and those charged with governance. Appropriate technical competence, professional skills and professional values, ethics and attitudes enhances the authority of the individual(s) assigned

¹⁵ IES 7, Continuing Professional Development (2014)

¹⁶ IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)

responsibility for performing the engagement and supports their understanding of how to fulfill their responsibilities in accordance with professional standards. Furthermore, law or regulation may establish requirements for the professional licensing of engagement partners, including requirements regarding their technical competence, professional skills and professional values, ethics and attitudes.

- A88. The firm may evaluate firm personnel's commitment to quality and their maintenance and development of the technical competence, professional skills and professional values, ethics and attitudes to perform their roles through undertaking performance evaluations. In doing so, the firm may also provide personnel with feedback and counseling on the individual's performance, progress and career development. Less formal methods of evaluation and feedback may be used, particularly in the case of smaller firms with fewer personnel. Nevertheless, timely evaluations and feedback help support and promote the continual development of the technical competence, professional skills and professional values, ethics and attitudes of firm personnel.
- A89. The firm's evaluations may be used by the firm in determining the promotion, compensation or other incentives of firm personnel that give due recognition and reward to firm personnel who demonstrate a commitment to quality and who maintain and develop the technical competence, professional skills and professional values, ethics and attitudes, to perform their role. The policies or procedures established by the firm that address compensation, promotion and other incentives with regard to firm personnel, may provide for simple or informal incentives that are not based on monetary rewards.

Technological Resources (Ref: Para. 38(e), 38(g) and 40(e))

- A90. The firm may develop technological resources internally, acquire technological resources from a service provider, or the firm's network may provide technological resources. Paragraphs 59–63 address circumstances when the firm uses network services and paragraphs 64–65 address circumstances when the firm uses a service provider. Paragraph 27 of Appendix 1 explains the frequency with which the firm may need to acquire, develop or maintain its technology and paragraphs 28–29 of Appendix 1 set out the responses the firm may implement when technology is acquired from a network or service provider and when it is developed internally.
- A91. The technology used by the firm encompasses the infrastructure and other resources necessary for such technology to be able to operate, for example, human resources to operate the technology, a network infrastructure, data storage, data transmission, hardware, backup and recovery procedures and disaster recovery plans. The frequency with which the firm needs to track and respond to changes in its infrastructure depends on how rapidly the firm may be affected by technological changes. Paragraphs 30–31 of Appendix 1 explain the importance of security in relation to the firm's technology, provide examples of the types of security measures that may be implemented and factors that may influence the security.
- A92. Engagement teams may need to be trained on how to use the technological resources appropriately and may be required to undertake specific actions so that technology is used appropriately in the circumstances. For example, in some instances the firm's audit software may require that the engagement team complete certain information about the client and the circumstances of the engagement in order to generate an appropriate audit file for the circumstances of the engagement, or in using the firm's data analytical tool the engagement team may need to test the underlying data.

Intellectual Resources (Ref: Para. 38(f), 38(g) and 40(f))

A93. Intellectual resources comprise the information the firm uses to promote consistency in the performance of engagements, for example, a methodology, industry or subject matter-specific guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements). The firm may develop intellectual resources internally or may acquire intellectual resources externally. Paragraphs 59–63 address circumstances when the firm uses network services and paragraphs 64–65 address circumstances when the firm uses a service provider. Paragraphs 32–33 of Appendix 1 explain how the nature and extent of the firm’s intellectual resources may vary, and provide examples of responses addressing intellectual resources.

Engagement Performance (Ref: Para. 41–43)

Direction, Supervision and Review (Ref: Para. 41(a))

A94. Responsibilities in relation to engagement supervision may include the following:

- Tracking the progress of the engagement;
- Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

A95. A review may involve the consideration of whether:

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Judgments and Conclusions (Ref: Para. 41(b))

A96. Professional judgment is applied throughout the performance of engagements. The extent of professional judgment applied in an engagement depends on a variety of factors, for example, the nature of the engagement, the nature of the entity for whom the engagement is performed and the

underlying circumstances of the engagement (e.g., the complexity of the subject matter or subject matter information).

- A97. Although the judgments are undertaken at the engagement level, the system of quality management supports the quality of such judgments, for example, by creating an environment and culture that supports firm personnel in exercising judgment, providing support tools (e.g., guides and other resources) or through consultation or review (e.g., an engagement quality control review provides an objective evaluation of the judgments made by the engagement team and the conclusions reached).

Consultation (Ref: Para. 43(a))

- A98. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. While the firm establishes policies or procedures regarding the matters on which consultation is required, the engagement team may identify matters that require consultation, for example, difficult or contentious matters specific to the engagement. The policies or procedures addressing consultation may provide clear guidelines as to the steps to be taken in consultation, and may set out documentation requirements. Paragraphs 34–35 of Appendix 1 explain factors that contribute to effective consultation and matters that may be included in the documentation.
- A99. In considering its resource needs, the firm may take into consideration the resources needed to support consultation, including access to appropriate research resources and human resources with the technical competence, professional skills and professional values, ethics and attitudes that enable them to appropriately consult. In some instances, such as a smaller firm, resources to support consultation may only be available externally, for example other firms, professional and regulatory bodies, or commercial organizations that provide such services. In such cases, paragraphs 64–65 apply.

Differences of Opinion (Ref: Para. 43(b))

- A100. The policies or procedures addressing differences of opinion may be established in a manner that encourages identification of differences of opinion at an early stage, provides clear guidelines as to the successive steps to be taken thereafter, and requires documentation regarding the resolution of the differences and the implementation of the conclusions reached. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Quality Control Reviews (Ref: Para: 43(c))

[Placeholder until ISQC 2 is further developed]

Engagement Documentation (Ref: Para. 41(d))

Completion of the Assembly of Final Engagement Files

- A101. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement is to be completed. Where no such time limits are prescribed in law or regulation, the firm ordinarily establishes a time limit that reflects the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report. Paragraph 36 of

Appendix 1 explains circumstances when two or more different reports are issued in respect of the same subject matter information.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

A102. Relevant ethical requirements generally establish an obligation for the firm's personnel to observe at all times the confidentiality of client information, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements to do so.¹⁷ Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature is concerned. Client information may be contained in engagement documentation or other locations, such as emails, firm servers or hard copy. Accordingly, the firm's responses to address the confidentiality of client information may need to address all possible locations of client information.

A103. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Paragraphs 37–38 of Appendix 1 provide examples of the responses the firm may design and implement to address unauthorized alteration or loss of engagement documentation and the maintenance of the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

Retention of Engagement Documentation

A104. The needs of the firm for retention of engagement documentation, and the period of such retention, may vary with the nature of the engagements performed by the firm and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. Paragraph 39 of Appendix 1 provides examples of the responses the firm may design and implement to address retention of engagement documentation.

A105. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

Ownership of engagement documentation

A106. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

¹⁷ See, for example, paragraph R114.1, 114.1 A1 and R360.26 of the IESBA Code.

Monitoring and Remediation Process (Ref: Para. 44–58)

A107. In addition to supporting the firm's evaluation of the design, implementation and operation of the responses within the components of the firm's system of quality management, the monitoring and remediation process facilitates the improvement of engagement quality and the firm's system of quality management. Professional judgment is applied in relation to various decisions within the monitoring and remediation process, including decisions about:

- The nature, timing and extent of the monitoring activities to monitor the design, implementation and operation of the responses, including the scope of inspection of completed engagements.
- The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information.
- How to appropriately respond to the findings from the monitoring activities, results of external inspections and other relevant information.
- Whether the system of quality management provides the firm with reasonable assurance in accordance with paragraph 15.

Designing and Performing Activities to Monitor the Design, Implementation and Operation of the Responses (Ref: Para. 45–47)

A108. The frequency of the firm's monitoring activities may comprise ongoing monitoring activities, periodic monitoring activities or a combination of both. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions, for example, computerized continuous monitoring techniques over engagement file retention procedures or engagement-level reviews that are undertaken during the course of the engagement on specific aspects of completed work. Periodic monitoring activities are conducted at certain intervals by the firm, for example, inspection of completed engagements. Since periodic monitoring activities are performed at certain intervals, ongoing monitoring activities may be more effective in identifying deficiencies in the system of quality management in a timely manner. Nevertheless, periodic monitoring activities may be useful in confirming the results of ongoing monitoring activities. Paragraphs 40–41 of Appendix 1 provide examples of monitoring activities and how the nature, scope and frequency of the monitoring activities may vary. Paragraph 42 of Appendix 1 explains how the objectivity of those performing the monitoring activities may vary depending on the activity subject to monitoring.

A109. While performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed. For example, the firm may identify findings that indicate the need for more extensive monitoring activities in a particular area.

A110. Certain responses to the quality risks may be designed to detect deviations in the system of quality management in order that such deviations are promptly corrected. In such cases, the response is not typically a monitoring activity, because the firm does not typically evaluate whether such deviations are deficiencies in the system of quality management (i.e., the response is designed to detect and correct a deviation in order to prevent deficiencies). Since the activity is designed as a response to a quality risk, the firm implements monitoring activities to evaluate the design, implementation and operation of the response. However, the nature, scope and frequency of the firm's monitoring activities may be affected by the nature of the response. For example, the firm may require engagement teams to obtain a review of the audited financial statements or other aspects of

completed work by a central technical team prior to dating the audit report (e.g., a pre-issuance review), in order to identify deviations in the engagement that are required to be corrected before issuing the audit report. In this circumstance, the extent of the pre-issuance review may affect the scope or frequency of inspections of completed engagements.

A111. The assessed quality risks and the design of the responses may influence the nature, scope and frequency of the monitoring activities, for example, the firm may more frequently monitor areas of higher assessed quality risk or extend the scope of monitoring in such areas. There may be classes of engagements where it is more likely that the quality risks to which the response relates may occur or where there is a greater likelihood of the quality objective not being met, for example, engagements that relate to a particular industry or type of service. Other factors that may also affect the nature, scope and frequency of the monitoring activities include:

- The size of the firm, the types of services the firm provides, the industries it serves and the nature of the entities to whom services are provided.
- The structure and organization of the firm, including the involvement of the network firm in monitoring activities.
- The firm's infrastructure, for example, technology and resources to support monitoring activities.

A112. The firm's system of quality management may change as a result of, for example:

- Changes in the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken (e.g., a new service offered by the firm or changes in the firm's environment).
- Changes to address an identified deficiency in the firm's system of quality management.
- Other factors, such as the firm amends the responses to quality risks because these become obsolete over time or more effective responses are designed and implemented

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the components of the system of quality management and therefore the firm's monitoring activities may include monitoring areas of change. Furthermore, previous monitoring activities undertaken by the firm may also no longer provide the firm with information to support the evaluation of the components of the system of quality management in relation to areas that have remained the same, for example, because of the time that has elapsed since the monitoring activities were undertaken. Accordingly, the firm may need to consider the relevance of previous monitoring activities, which includes understanding changes in factors that affect the firm's system of quality management, as well as when such monitoring activities were performed.

A113. The findings from the firm's previous monitoring activities, results of external inspections or other relevant information may indicate:

- Areas where monitoring activities should be undertaken, for example, monitoring may need to be undertaken in certain areas where there is a history of deficiencies. Furthermore, the monitoring activities may need to evaluate the effectiveness of remedial actions implemented to address deficiencies previously identified.

- That deficiencies existed in previous monitoring activities undertaken by the firm. This may affect the firm's consideration of whether the current monitoring activities planned to be undertaken, or that are being undertaken, are appropriate

The results of external inspections cannot be used by the firm as a substitute for undertaking internal monitoring activities because the manner in which the external inspections are conducted (i.e., the nature, timing and extent of the inspection procedures) may not have been designed with the objective of evaluating the design, implementation and operation of the responses.

A113a. Examples of sources of other relevant information may include:

- Information communicated by the network in accordance with paragraph 61 of this ISQC in relation to the firm's system of quality management, including the network services that the firm uses.
- Information communicated by a service provider about the services the firm uses in relation to its system of quality management.
- Concerns in relation to the commitment to quality of the firm or its personnel, communicated in accordance with paragraph 29(e) of this ISQC.
- A material restatement of financial statements or an engagement report that required reissuance.

Engagement Inspections (Ref: Para. 46)

A114. The factors the firm may consider in establishing criteria for the selection of completed engagements for inspection include:

- Engagements when the firm or engagement partner are inexperienced, for example, a new industry, a new service offering or new engagement partner.
- Engagements performed in respect of certain entities (e.g., a listed entity or entity that has a significant public interest).
- Engagements that have been subject to external inspection and which have negative findings, or engagements where the findings of previous monitoring activities identified deficiencies.
- Engagements where there has been a material restatement of comparative information in the financial statements or the firm's report required reissuance.
- Engagements where the firm's engagement acceptance and continuance procedures indicated that matters may exist that may increase the engagement risk.

A115. The frequency of selection of individual engagement partners depends on many factors, including those described in paragraph A114. The firm may establish different cyclical periods for engagement partners based on the nature of the engagements they perform, for example, the firm may determine that the cyclical period for an engagement partner performing audits of financial statements may be three years.

A116. The selection of completed engagements, together with other monitoring activities, need to be sufficient to support the firm's evaluation of the design, implementation and operation of the system of quality management. Factors that may affect the firm's consideration of the nature and extent of selection of completed engagements for inspection include:

- The extent to which the other monitoring activities involve engagement-level reviews.
- The varying nature of the engagements performed by the firm.
- The size of the firm, including the number and geographic location of offices and the nature and complexity of the firm's practice and organization, for example, the firm may consider how many engagement inspections are needed that would provide an adequate sample to support the firm's evaluation of the system of quality management.
- The nature and extent of responses implemented by the firm to address quality risks, for example, pre-issuance reviews that are designed to detect, correct and prevent deficiencies may reduce the need for inspections of completed engagements.

A117. Evaluating completed engagements ordinarily involves performing procedures designed to provide evidence of compliance by engagement teams with the aspects of the firm's system of quality management relevant to the engagement. In determining the nature and extent of the procedures to be undertaken in performing the evaluation of completed engagements, the firm may consider a variety of factors, for example, the assessment of quality risks or areas of change in the firm's system of quality management (e.g., circumstances when the firm has introduced a new policy or procedure). Such procedures may also include performing substantive reviews of the quality of work performed, in particular in relation to significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.

Identifying Deficiencies (Ref: Para. 47–49)

A118. Findings represent the information accumulated from the performance of monitoring activities and may also include the results of external inspections and other relevant information about the firm's system of quality management. Findings may be positive or negative in nature:

- Positive findings may be useful to the firm as they may indicate practices that the firm can support or apply more extensively, for example, across all engagements. They may also highlight opportunities for the firm to improve, or further enhance, the system of quality management.
- [REDACTED] in order to determine whether there are deficiencies in the system of quality management.

A119. [REDACTED] in circumstances when the firm identifies:

- [REDACTED] e, i.e., a response is not properly designed to address a related quality risk or a response necessary to address the quality risk is absent. Such a deficiency is also a deficiency in the firm's quality risk assessment process because it is an indication that a quality objective has not been established appropriately, a quality risk in relation to a quality objective has not been identified or the design of the response is inadequate to address a quality risk.
- [REDACTED]
- [REDACTED]

In some circumstances, it may not be possible to identify that a response is absent through considering the findings from the firm's monitoring activities because the firm's monitoring activities

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focus on evaluating the design, implementation and operation of responses (i.e., the responses that are in place). Nevertheless, in fulfilling the [REDACTED] the individual(s) assigned ultimate responsibility for the system of quality management ordinarily considers whether the quality objectives are met, and in doing so may identify that a response is absent.

A120. A finding may affect multiple components, and the firm may determine that a finding is indicative of a deficiency across more than one component. However, not all negative findings are a deficiency in the system of quality management. For example, a finding may be isolated, such that the response is appropriately designed, implemented and operated.

A121. The [REDACTED] [REDACTED] [REDACTED] may provide information regarding [REDACTED] or further enhance, the system of quality management. Furthermore, as part of evaluating the findings arising from the monitoring activities, results of external inspections or other relevant information, and [REDACTED] es, it may be useful for the firm to also understand those areas of the system of quality management where no deficiencies have been identified and why they are effectively designed, implemented and operated. For example, in performing inspections of completed engagements, the firm may identify engagements with very few, if any findings and it may be useful to understand the circumstances surrounding such engagements.

A122. The [REDACTED] in conjunction with the other components of the system of quality management, support the firm in achieving the objective of this ISQC. Accordingly, it is [REDACTED] to establish that it is functioning in a manner that achieves its purpose. However, [REDACTED] [REDACTED] in relation to the responses and the results of external inspections and any other relevant information, i.e., [REDACTED] [REDACTED] Other information sources may indicate deficiencies in the system of quality management that have not been identified by the firm's monitoring and remediation process (e.g., external inspection findings, network inspections or complaints and allegations). In such cases, the firm may consider the nature of the deficiencies identified and the manner in which they were discovered in evaluating the design, implementation and operation of the firm's responses in relation to monitoring and remediation, and consideration of whether there is a deficiency in the firm's monitoring and remediation process.

Root Cause Analysis and Evaluating the Deficiencies (Ref: Para. 50)

A123. The objective of investigating the root cause(s) of deficiencies is to understand the underlying circumstances that caused the deficiencies. An improved understanding of the underlying cause(s) of deficiencies may:

- Facilitate the implementation of more effective actions to address deficiencies, thereby improving quality.
- Directly contribute to the improvement of quality at the engagement level through the participation of engagement teams in the root cause analysis process.
- Enable those assigned ultimate or operational responsibility for the system of quality management to have an improved awareness, to enable them to proactively monitor actions taken to address deficiencies.

- Facilitate more effective communication to firm personnel by explaining the actual root cause(s) of deficiencies, rather than the deficiencies themselves.

A124. Performing a root cause analysis generally involves those performing the assessment applying judgment based on the evidence available. The firm's process for investigating the root cause may be simple in circumstances when:

- The root cause(s) of a deficiency is apparent due to the nature of the deficiency; or
- The possible severity of the deficiency is not significant and therefore the firm may not undertake a complex process to understand the root cause(s).

Paragraphs 43–44 of Appendix 1 provide examples of the firm's process for investigating the root cause(s) of a deficiency and how the firm may consider findings from its monitoring activities, results of external inspections or other relevant information that are not considered deficiencies.

A125. The underlying root cause(s) of deficiencies may relate to a variety of factors and there may be many root causes that relate to a particular deficiency. Furthermore, the root cause of a deficiency may relate to more than one component, for example, a deficiency related to compliance with relevant ethical requirements may relate to a firm culture that does not promote ethical values. In particular, in circumstances when the root cause relates to an aspect of the firm's quality risk assessment process, such root cause may affect multiple components, for example, if the firm's process for identifying risks is defective, this may affect all of the components. Paragraph 45 of Appendix 1 provides examples of root causes.

A126. Identifying a root cause(s) that is sufficiently specific may support the firm's process for appropriately remediating deficiencies and achieving the objective of this ISQC. For example, it may be identified that an engagement team inappropriately applied professional skepticism, however the underlying root cause may relate to the cultural environment, in which engagement team members typically do not challenge individuals with greater authority.

A127. The appropriate remedial action for a deficiency may depend on or be affected by whether the root cause(s) indicates a deficiency in the design, implementation or operation of a response. For example, a deficiency in the design of a response is an indication of a deficiency in the firm's quality risk assessment process and accordingly, the firm may need to implement remedial actions with respect to this process.

Responding Appropriately to the Results of Internal Monitoring Activities, External Inspections and Other Relevant Information

Deficiencies in Relation to Engagements (Ref: Para. 51)

A128. In circumstances when the report issued is inappropriate or procedures were omitted, the further action taken by the firm to comply with relevant professional standards and applicable legal and regulatory requirements may include:

- Discussing the matter with management of the entity or those charged with governance.
- Taking steps to ensure that users of the firm's report are informed of the situation.
- Performing the omitted procedures and amending the report, as appropriate.
- Obtaining legal advice.

The actions taken to correct the work performed or the report issued for a specific engagement does not relieve the firm of the responsibility to investigate the root cause(s) of the deficiency related to the engagement.

Designing and Implementing Remedial Actions (Ref: Para. 52–53)

A129. The remedial actions are required to be responsive to the root cause(s) identified, for example, if the root cause relates to the firm having insufficient time and resources to perform the engagement, the remedial actions may include actions that address how the firm obtains and allocates its human resources or withdrawing from engagements such that sufficient resources are available to perform all of the firm's engagements. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:

- The extent of the root cause(s), for example, whether it relates to an individual engagement, a certain category of engagements, or is more pervasive throughout the firm.
- The severity and pervasiveness of the deficiency and therefore the urgency in which it needs to be addressed.
- The effectiveness of the remedial actions in addressing the root cause(s), for example, the firm may need to implement more than one remedial action in order to effectively address the root cause(s), or may need to implement remedial actions as interim measures until such time as the firm is able to implement more effective remedial actions.

Ongoing Communication Related to the Monitoring and Remediation (Ref: Para. 54–56)

A132. Frequent and timely communication with the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the system of quality management, as and when matters arise, supports the accountability of these individual(s), and enables them to take prompt and appropriate action, when necessary, in response to such information.

A133. Firm personnel refers to the partners and staff within the firm, which includes engagement teams, professionals and any experts the firm employs.

A134. In determining the information to be communicated to firm personnel, including the nature and extent of such communication, the firm may consider the type of information that is relevant to the particular recipients, including the information needs of the recipients, as a result of their defined roles and responsibilities. For example:

- Information communicated to engagement teams may be focused on deficiencies that have been identified at an engagement level and therefore are likely to be relevant.
- Information communicated to all firm personnel may relate to matters relevant to compliance with the firm's independence policies or procedures as such policies or procedures may apply to all firm personnel.

Communicating the root cause(s) of deficiencies may increase awareness and understanding of why deficiencies occurred, which may influence the behaviors of engagement teams and firm personnel. Communicating remedial actions may support the implementation of such actions in a more proactive manner.

A135. Paragraph 29(d) includes requirements regarding the communication of information in relation to the firm's system of quality management to firm personnel at least annually, which may include the communications required by this section. However, the firm still has a responsibility to communicate information in relation to the firm's monitoring and remediation process on a timely basis to firm personnel, to the extent that it is relevant to their responsibilities and is necessary to enable them to take prompt and appropriate action in accordance with their responsibilities.

Evaluating the Effectiveness of the System of Quality Management (Ref: Para. 57–58)

A137. The individual(s) [REDACTED] quality management [REDACTED] in [REDACTED] effectiveness of the system of quality management. However, it may be necessary to obtain additional information. The evaluation of whether the system of quality management provides the firm with reasonable assurance in accordance with paragraph 15 includes consideration of the severity and pervasiveness of the deficiencies, individually and in combination with other deficiencies.

A138. In circumstances when the firm's evaluation in paragraph 57 indicates that the firm has not achieved reasonable assurance in accordance with paragraph 15, in addition to the communication required by this ISQC, the firm may consider other actions such as:

- Obtaining legal advice.
- Taking steps to determine whether the reports already issued by the firm were appropriate.
- Determining appropriate measures to ensure that reports not yet issued by the firm are appropriate in the circumstances.

A138a. Circumstances when it may be appropriate for the firm to communicate to external parties that the firm has not achieved reasonable assurance in accordance with paragraph 15 include:

- (a) When the firm is required by law or regulation to communicate this fact.
- (b) When the firm belongs to a network and the information is relevant to the network or other firms within the network who use the work performed by the firm, for example, in the case of a group audit.
- (c) When a report issued by the firm is determined to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.

Considerations in Relation to Networks (Ref: Para. 59–63)

A139. Ordinarily networks establish contractual terms that set out the responsibilities of the network and the network firms, and may further establish how the network firms and the network interact and the nature of relationships and interaction with other network firms. The contractual terms may state the network services that the firms are required to use. The network may also provide services that the firm is able to choose to use.

A140. The firm obtains an understanding of the network services in order to establish whether they may be used in relation to the firm's system of quality management. For example, the network may establish common quality objectives and quality risks for all of the network firms, and the firm may therefore determine whether the quality objectives and quality risks are relevant to the nature and

circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken. Although the network may establish such quality objectives and quality risks, this does not relieve the firm of its responsibility to address the requirements related to the quality risk assessment process in paragraphs 24–26.

A141. In understanding the expected form, timing and content of communications between the firm and the network, the firm may take into consideration what information will be received from the network and whether the information will be adequate to support the firm in determining how the network services affect the firm's system of quality management. The form, timing and content of communications may include the prompt communication of identified deficiencies to the firm and to appropriate individuals within the network so that the necessary action can be taken, as well as timely communication about changes to the network's services.

A142. The procedures undertaken by the firm to understand the network's process(es) may vary based on the nature of the service. Such procedures may include obtaining and reading the network's description of its processes in relation to the network services, including understanding:

- The procedures, within both information technology and manual systems, by which the network services are provided.
- The related records and supporting information that are used within the network's process.
- How the network responds to changes in circumstances or other information that affects the network services;
- The process used to prepare and provide information to the firms within the network;
- The firm's responsibilities and supplementary actions contemplated in the design of the network service.
- The network's governance and leadership.
- How the network has identified the quality objectives, quality risks and responses relevant to the service, to the extent that it is relevant to the network services provided.
- How the network monitors the network services and its processes for evaluating the findings from monitoring activities and remediating deficiencies.

A143. The understanding of the network's service(s) may indicate that such services are not designed, implemented or operated such that they can be used by the firm in its system of quality management. In such cases, the firm may:

- Agree with the network how the circumstance may be remediated such that it is appropriate to use the network services in the firm's system of quality management;
- Supplement such services at the firm level in order that the intended objective for which the services are used is achieved; or
- Be unable to use the services in its system of quality management.

In some cases, although the firm may be satisfied with the design, implementation or operation of the network service, the firm may need to supplement the network services. For example, the network may establish common quality objectives, quality risks and responses across the network, however the firm may need to supplement them to address jurisdictional matters.

A144. For many services, the firm may have a responsibility in relation to the implementation of the service, i.e., the supplementary actions. For example, in the case of implementing network-developed software, the firm may need to have the appropriate technological infrastructure in place to support the software and provide training to firm personnel (paragraphs A90–A93 set out further considerations in relation to the use of technological resources and intellectual resources obtained from a network). The supplementary actions may also include monitoring the service at the firm level, for example, the inspection of completed engagements at the firm level may support the monitoring of certain policies or procedures established by the network.

Monitoring and Remediation Process (Ref: Para. 61–63)

A145. Paragraph 44 requires the firm to evaluate the system of quality management, which includes the network services used by the firm. The services may be monitored by the network, the firm, or a combination of both. For example, the network may undertake monitoring activities at a network level in relation to a common methodology, however various monitoring activities at a firm level may support the evaluation of the methodology, including engagement inspections. When the monitoring is undertaken by the network, it forms part of the firm's monitoring activities and the firm obtains the findings from such monitoring activities. This may also include information, such as:

- A description of the monitoring procedures performed, including the scope, nature and frequency of such monitoring activities.
- The network's evaluation of whether the findings indicate a deficiency, the root cause(s) of the deficiency, the assessed effect of the deficiency and remedial actions.

A146. The network may also gather information from the network firms regarding the results of the firm level monitoring activities over activities at the firm level, including information obtained by the firm from external sources (e.g., the results of external inspections). The network may use such information to identify trends and common areas of deficiencies across the network, understand the root cause(s) of deficiencies and implement actions to address them, either at the network level or firm level. The network may also use the information to understand the effectiveness of the system of quality management in relation to the individual firms within the network that, to the extent possible, may be shared with other network firms for the purposes of providing information to support an understanding of the component auditors used within the network in the case of engagements performed in accordance with ISA 600.¹⁸ In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other firms within the network, or may restrict the specificity of such information.

A147. In some cases the firm may determine that the remedial actions by the network are inadequate, or such remedial actions may take time to be effectively designed, implemented and operated. In such cases, the firm may need to implement its own remedial actions to address the deficiency until such time as the network has effectively addressed the deficiency.

¹⁸ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Considerations Relating to Use of Service Providers (Ref: Para. 64–65)

- A148. The service providers used by the firm may include individuals or organizations. Examples of services provided by service providers include providing a methodology or audit software, performing engagement quality control reviews or providing technical resources to support consultation.
- A149. The firm's responsibilities in using the service provider may include matters such as the actions the firm needs to take in order to implement the service in the firm or information the firm needs to communicate to the service provider in order that the service can function effectively. For example, in the case of software provided by a service provider, the firm may need to have the appropriate technological infrastructure in place to support the software and provide training to firm personnel (paragraphs A90–A93 set out further considerations in relation to the use of technological resources and intellectual resources obtained from a service provider).
- A150. Obtaining an understanding of the service provider may include understanding the conditions of the service, for example, how often updates will be provided in relation to the service, limitations on the use of the service and how the service provider addresses confidentiality of data and information. Understanding the expected form, timing and content of communications between the firm and the service provider is necessary in determining how the firm will be alerted to matters affecting the use of the service, for example, updates to software or methodologies, or deficiencies in the services.
- A151. The appropriateness of the technical competence, professional skills and professional values, ethics and attitudes of the service provider will vary depending on the nature of the underlying services. For example, *[placeholder to reference to ISQC 2 and the criteria for the eligibility of an individual to be able to perform an engagement quality control review]*. The reputation of the service provider may also provide an indication of whether their technical competence, professional skills and professional values, ethics and attitudes are appropriate in the circumstances. In some cases, depending on the nature of the service being provided, the service provider may need to comply with the relevant ethical requirements applicable to the firm, for example, in the case of an engagement quality control reviewer, technical resources who provide consultation, external experts and when the firm uses individuals to perform procedures at an engagement level.
- A152. The procedures undertaken by the firm to understand the service provider's processes may include obtaining and reading the service provider's description of its processes in relation to the services, including understanding the matters described in paragraph A142. Furthermore, understanding how the service will be evaluated and remediated is necessary in determining whether the firm will have the information it needs to be able to evaluate its system of quality management. In some circumstances, the service may not be evaluated and remediated by the service provider and the firm may instead perform monitoring activities over the service, for example, in the case of an engagement quality control review undertaken by a service provider. There may be circumstances when the service provider supplies the firm with an assurance report on the description and design of their controls, and in some circumstances, it may also include assurance on the operating effectiveness of such controls.

Documentation (Ref: Para. 66–69)

- A153. Documentation provides evidence that the firm complies with this standard and law, regulation or relevant ethical requirements. It may also be useful for training personnel, ensuring the retention of organizational knowledge and providing a history of the basis for decisions made by the firm in

relation to its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, in relation to its system of quality management. Furthermore, compliance with this standard may be evidenced by the firm through documents or other written materials that are integral to the components of the system of quality management, for example, a documented confirmation from firm personnel regarding compliance with the firm's policies or procedures in relation to independence.

A154. The form, content and extent of documentation in relation to the various aspects of the system of quality management may vary, for example, certain aspects of the system of quality management may be documented in detail, in particular aspects of the system of quality management that have changed or that relate to areas of greater quality risk. Documentation may also take the form of formal written manuals, or may exist in written form through informal means, for example, through e-mail communication or postings on websites. The firm applies judgment in determining the form, content and extent of documentation that is sufficient to meet the objective in paragraph 66. Factors that may affect such determination may include:

- The size of the firm and the number of offices;
- The nature and complexity of the firm's practice and organization; or
- The types of services the firm provides and the nature of the clients to whom services are provided.

For example, it may not be necessary to have documentation supporting the communication of matters in a smaller firm, because informal communication methods may be effective in supporting a consistent understanding of the firm's system of quality management and consistent implementation and operation of the responses. Nevertheless, in some cases, the firm may determine it appropriate to document such communications in order to provide evidence of the design, implementation and operation of the responses. Digital information held in databases may be used to evidence that the firm complies with this standard, particularly when there is a large volume of material or geographical dispersion of personnel (e.g., independence confirmations, performance evaluations and the findings from monitoring). Manual methods of recording information, such as notes, checklists and forms, may also be appropriate.

A155. In some instances, an external oversight authority may establish expected documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the IESBA Code requires documentation of particular matters in relation to conflicts of interest,¹⁹ non-compliance with laws and regulations²⁰ and independence.²¹

A156. In some circumstances, it may be appropriate for the firm to document its process and analyses for establishing the quality objectives, identifying and assessing quality risks and designing responses to such risks, to provide a history of the basis for decisions made by the firm in relation to its system of quality management. Paragraph 46 of Appendix 1 illustrates how the firm's governance and leadership may be documented.

¹⁹ See, for example, paragraphs R310.13 of the IESBA Code.

²⁰ See, for example, paragraphs R360.28 of the IESBA Code.

²¹ See, for example, paragraphs R400.60, R400.88, R400.89, R900.40, R900.44 and R900.45 of the IESBA Code.

Appendix 1

Examples Supporting the Application of ISQC 1

The Firm's System of Quality Management (Ref: Para. A3)

1. Quality management is a continual, dynamic process that involves an ongoing consideration of whether the firm's system of quality management is designed, implemented and operated to provide the firm with reasonable assurance in accordance with paragraph 15. A system of quality management is designed according to the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken, through applying the quality risk assessment process. The system of quality management is updated when there are changes in the circumstances of the firm, the engagements it performs and the types of entities for whom such engagements are performed or when deficiencies in the system are identified. The firm may also update the system of quality management in response to other information, for example, new technology may become available that is more effective in addressing quality risks and achieving the quality objectives.
2. The eight components in this ISQC have similarities to the components of internal control described in ISA 315 (Revised). For example, the governance and leadership is similar to the entity's control environment and the quality risk assessment process is similar to the entity's risk assessment process.

Applying, and Complying with, Relevant Requirements (Ref: Para. A15)

4. In the circumstances of a sole practitioner with no staff, examples of the requirements of this ISQC that may not be relevant include:
 - Communicating appropriate information necessary to enable and support the proper functioning of the firm's system of quality management.
 - Establishing a complaints and allegations process that enables reporting, without fear of reprisal, of concerns in relation to the commitment to quality of the firm or its personnel.
 - Establishing an organizational structure and assigning responsibility, for example, operational responsibility for matters related to independence or operational responsibility for the monitoring and remediation process.
 - Undertaking periodic performance evaluations that assess the effectiveness of firm leadership.

Governance and Leadership

Culture (Ref: Para. A21)

5. The actions undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management to foster a culture of quality throughout the firm may include:
 - Defining the purpose and values of the firm, as well as the expected behaviors of the firm's personnel.
 - Establishing trust through consistent, regular and open communication within the firm and through establishing policies or procedures to deal with complaints and allegations.

- Establishing responsibility and accountability for quality, for example, through clearly defining and communicating roles and responsibilities throughout the firm and defining how internal quality will be measured.
 - Providing transparency within the firm about the firm's actions to address quality, and the effectiveness of those actions.
 - Establishing policies or procedures to address recruitment, development, compensation, and promotion with regard to its personnel that support and encourage behaviors that are consistent with the firm's purpose, values and strategy.
 - Establishing appraisal and reward systems that promote personal characteristics that support and reinforce the firm's view on the importance of quality, and providing personnel with continuing professional development opportunities.
 - Promoting a culture of consultation on difficult issues and providing access to high-quality technical support.
 - Implementing robust systems for supporting decisions about the acceptance and continuance of client relationships and specific engagements.
 - Monitoring the effectiveness of actions implemented to embed the culture and evaluating whether the outcome of monitoring activities are reflective of a culture that focuses on professional values, ethics and attitudes and the performance of quality engagements.
6. In circumstances when the firm belongs to a network, the culture of the firm may be influenced and supported by the network, for example through:
- The tone of leadership at the network level and the emphasis placed on the importance of quality.
 - The network holding the firm leadership accountable for quality.
 - The requirements imposed by the network on firms within the network in order to be able to belong to the network, including the policies or procedures with which the firm is required to establish and comply.
 - How the network manages and responds to matters in relation to quality across all of the firms within the network, including the timeliness of the responses, communication of quality matters and what actions are taken in relation to firms that do not comply with network requirements.

Organization of the Firm and Resources (Ref: Para. A27)

7. In some jurisdictions, law or regulation may mandate the appointment of a governing body comprising a minimum number of independent non-executive members and it may further prescribe the function or responsibilities of those appointed within these roles. In establishing the leadership structure of the firm, it may be appropriate in some circumstances to appoint Individual(s) who are independent from the ownership of the firm (i.e., who do not hold a financial interest in the firm) and who are not involved in the daily operations, as they may be able to provide impartial judgment in the firm's decision-making, that takes into consideration the legitimate interests of relevant stakeholders.

Quality Risk Assessment Process

Establish Quality Objectives (Ref: Para. A39)

8. More granular quality objectives may be appropriate in circumstances when the firm's quality objectives need to be broken-down into related sub-objectives because the operations within the firm are structured across divisions, operating units, or other such functions. For example:
- The firm may organize its divisions or operating units according to the nature of the engagements performed by the firm and the quality objectives may be established according to the specific engagements performed by the operating units.
 - The firm may organize its divisions or operating units according to the industries of the entities for whom the firm provides services and the quality objectives may be tailored to the specific industry, for example, financial institutions.

Identify and Assess Quality Risks (Ref: Para. A42)

9. In assessing the effect of a quality risk on the achievement of a quality objective, the firm may consider the rate at which the effect of a quality risk would take place, or the amount of time that the firm has to respond to a quality risk. For example:
- Due to the implementation period typically provided after the issuance of new or revised standards, the firm may be able to sufficiently communicate the changes to personnel and train them as necessary as well as perform any updates in its system of quality management during this implementation period and in advance of the effective date, thereby lowering the risk of non-compliance with the standards when they are effective.
 - The firm may identify a quality risk that the firm does not have personnel that have appropriate technical competence, professional skills and professional values, ethics and attitude to perform engagements as a result of high staff turnover. In such cases, the firm is often not able to foresee when it will experience high staff turnover and therefore the rate at which the effect would take place is immediate. This may increase the firm's assessment of the effect of the quality risk on the achievement of the quality objective.
10. The firm may also consider the duration of time of the effect of the quality risk after it has occurred in assessing the effect of a quality risk on the achievement of a quality objective. For example:
- The risk of non-compliance with new or revised relevant ethical requirements may be higher in the short-term (i.e., in the period immediately following its effective date). The risk may decrease in the longer term as firm personnel become knowledgeable about and accustomed to the changes in requirements.
 - In the case of the high staff turnover described above, if the firm expects that they will be able to replace the personnel in a relatively short period of time with personnel that have appropriate technical competence, professional skills and professional values, ethics and attitude to perform engagements, the effect of the quality risk on the achievement on the quality objective may be reduced.

Design and Implement Responses to Quality Risks (Ref: Para. A45)

11. In designing a response to a quality risk, the firm may consider many factors, including:

- Whether the response should involve a preventative activity, a detective activity or a combination of both. For example, a preventative activity would include developing the knowledge of firm personnel regarding independence requirements in order to prevent breaches of independence, and a detective activity would include systems that check compliance with independence requirements by firm personnel.
- Whether the response should be a manual process or whether the quality risk would be more appropriately addressed through automated means, for example, the firm may be able to use data analytic techniques or other technologies.
- The appropriate timing of the response activities, for example, certain activities may need to operate on a continual basis in order to be effective (e.g., monitoring and reporting breaches of the firm's independence policies or procedures).
- Whether the response alone is sufficient to address the quality risk, i.e., a combination of responses may be necessary to appropriately address the quality risk.
- Whether there are responses that address multiple quality risks and therefore may be more effective to design and implement.
- The appropriate resources to support the response. For example, certain responses may need to be performed by competent personnel with the appropriate knowledge, time and experience, or the firm may need to source technological or intellectual resources to support the functioning of the response.
- The information to be obtained, generated and communicated in relation to the response.
- When the response is designed to identify deviations, clarifying how they will be addressed. For example, in the case of a pre-issuance review, the firm may factor the results of the pre-issuance review into performance evaluations.

Information and Communication (Ref: Para. A50–A51)

12. Examples of the information that is relevant in supporting the functioning of the components include:

- Quality risk assessment process:
 - Information in order to be able to establish objectives, identify and assess quality risks and design and implement responses.
 - Information that is necessary for the operation of the responses to quality risks.
- Governance and leadership:
 - Information necessary to support decision-making and an assessment of the firm's activities and performance.
 - Information needed to support an evaluation of the firm's resource needs.
 - Information necessary to meet external regulatory requirements.
 - Information to support an understanding of the responsibilities in relation to the firm's system of quality management and to support individuals in fulfilling their responsibilities.
- The monitoring and remediation process:

- Information in order to design and perform monitoring activities, including information necessary to establish policies or procedures in relation to engagement inspections.
 - Information in order to evaluate whether those performing monitoring activities have the experience, knowledge and capacity to perform the monitoring activity and are sufficiently objective from the activity subject to monitoring.
 - Information from other sources in order to identify deficiencies in the firm's system of quality management.
 - Information in order to understand the root causes and effects of deficiencies identified.
 - Information to evaluate the effectiveness of the remedial actions.
13. Firm personnel's responsibilities for communication may include, for example, communicating information to an individual within the firm about identified threats to compliance with the firm's independence policies or procedures or communicating breaches of the independence requirements to the individual(s) assigned operational responsibility for independence.
14. Information relating to the firm's system of quality management that the firm may communicate to engagement teams, in addition to the information that is required to be communicated in relation to monitoring and remediation, include:
- Information related to the firm's culture, for example, the message that each individual has a personal responsibility for quality and is expected to comply with the firm's policies or procedures.
 - Information that describes the authority, roles and responsibilities of engagement personnel.
 - Information obtained from the network about the system of quality management of another network firm that is relevant to engagement teams who use the network firm in the performance of a group audit.
15. Information relating to the firm's system of quality management that may be communicated to personnel performing duties in relation to the operation of the firm's system of quality management, in addition to the information that is required to be communicated in relation to monitoring and remediation, include:
- Information that describes the authority, roles and responsibilities of such personnel.
 - Information that supports the oversight of the firm's system of quality management by the individual(s) who is ultimately responsible and accountable for the system of quality management, for example, changes in the firm and its environment, applicable law, regulation or relevant ethical requirements.
 - Information relevant to establishing the quality objectives, identifying and assessing the quality risks and designing responses, for example, the types of services the firm provides, the industries it serves and the entities to whom services are provided or, when the firm operates as part of a network, the information obtained from the network in relation to the network services.
 - Information relevant to the operation of the responses identified, including information obtained from engagement teams, for example, information regarding the financial interests of the firm's personnel that enables the firm to identify threats to compliance with the firm's independence

requirements, information communicated by an engagement team regarding non-audit services provided to an entity or information communicated by engagement quality control reviewers.

16. Information that is obtained from or communicated to parties that are external to the firm may include the following:
- Information about the network services
 - Information relating to the design, development and performance of the firm's system of quality management communicated to external oversight authorities.
 - Information relating to external inspection findings that is received by the firm from external oversight authorities.
 - Information related to audit quality that is communicated to the firm's stakeholders, including those charged with governance of the firm's clients (e.g., internal indicators of audit quality communicated in the firm's transparency report).
 - Information relating to the firm's compliance with the requirements of professional standards and applicable legal and regulatory requirements, for example, information required by professional bodies with respect to the registration of the firm's engagement partners.
 - Communication to external service organizations relating to the firm's policies or procedures in order that they can comply with such policies or procedures (e.g., related to matters such as the firm's independence requirements or confidentiality of information).

The external parties with whom the firm communicates may be fewer in the case of a smaller firm.

17. There are a variety of methods the firm may use to communicate information, for example, manuals of policies or procedures, newsletters, alerts, systems (e.g., the firm's engagement software), emails, intranet or other web-based applications, training, presentations, social media, webcasts or through one-on-one discussions. In determining the most appropriate method(s) and frequency of communication, the firm may take into consideration the nature and urgency of the information being communicated and the audience to whom the information is being communicated. In some circumstances, the firm may determine it necessary to communicate the same information through multiple methods in order to achieve the objective of the communication and in such cases the consistency of the information communicated is important to its effectiveness. In the case of a smaller firm, the communication may be undertaken in a more direct manner as there are fewer personnel with whom to communicate. In considering the method of the communication, the firm may take into consideration cultural, ethnic and generational differences in order to enable effective communication.

Considerations in Relation to Networks

18. The network may establish information systems that obtain, generate or communicate information, for example, the network may establish an information system that records and maintains information in relation to independence. In such a circumstance, the network ordinarily establishes policies or procedures on the information that is required to be provided by the firms within the network and their personnel, and the network would communicate relevant information to the firms within the network such that the firm is able to identify threats to compliance with its independence requirements or breaches of the independence requirements.

19. There may be circumstances when the firm may determine it appropriate to report a complaint or allegation in relation to the network or another network firm. For example:
- A complaint in relation to the network may arise in relation to an error in the methodology developed by the network.
 - A complaint in relation to another network firm may arise in the case of a group audit, i.e., the work performed by another network firm on a component within the group

Acceptance and Continuance of Client Relationships and Specific Engagements

Integrity and Ethical Values of the Client, including Management, and, When Appropriate, Those Charged with Governance (Ref: Para. A72–A73)

20. Information regarding the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance. Other matters to consider may include, for example:
- The nature of the client's operations, including its business practices.
 - Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
 - Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
 - Indications of a limitation in the scope of work.
 - Indications that the client might be involved in money laundering or other criminal activities.
 - The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
 - The identity and business reputation of related parties.
21. Other sources of information may include:
- Discussions with other third parties, such as bankers, legal counsel and industry peers.
 - Inquiry of other firm personnel.
 - Background searches of relevant databases.

The Firm's Ability to Perform the Engagement (Ref: Para. A77)

22. The firm's response to address the consideration of whether the firm is able to perform the engagement may involve reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, and considering whether:
- The firm has sufficient personnel to undertake the engagement, including personnel to direct and supervise the engagement and take overall responsibility.
 - Firm personnel assigned to the engagement have appropriate technical competence, professional skills and professional values, ethics and attitudes to perform engagements, or the ability to gain these effectively. This includes knowledge of the relevant industry or the

underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements.

- Experts are available, if needed.
- Individuals meeting the eligibility requirements to perform engagement quality control review are available, where applicable.
- The firm is able to complete the engagement within the reporting deadline, for example, the time available to complete the engagement may be unreasonable in relation to the reporting deadline. The firm has appropriate technological resources to support the performance of the engagement, for example, engagement software or applications that enable the engagement team to perform procedures on the entity's data.
- The firm has appropriate intellectual resources to support the performance of the engagement, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

Resources (Ref: Para. A85–A86)

23. The IESs issued by the IAESB include the attributes of the professional accountant or engagement partner, including appropriate technical competence, professional skills and professional values, ethics and attitudes to perform engagements. Developing these attributes across all firm personnel may involve actions such as:
- Recruiting personnel with the appropriate competence and experience or sourcing suitably qualified external person(s) when internal resources are not available.
 - Encouraging and supporting employees in undertaking professional education.
 - Establishing policies or procedures addressing continuing professional development for all firm personnel.
 - Providing continuous training resources and assistance.
 - Allocating personnel to obtain particular work experience.
 - Coaching by more experienced staff, for example, through direction, supervision and review by members of the engagement team.
 - Independence education for personnel who are required to be independent.
24. The firm may establish various mechanisms to assign personnel to engagements. For example, the firm may establish systems to monitor the workload and availability of firm personnel, including engagement partners and engagement quality control reviewers, which allocate firm personnel, taking into consideration the quality risks associated with particular engagements and the firm's available staff resources. The firm may also establish contingency plans for addressing circumstances when unexpected events occur or matters arise that may create the need for additional human resources.
25. In assigning personnel to engagements and determining the level of supervision required, the firm may consider, for example, the engagement team's:
- Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;

- Understanding of professional standards and applicable legal and regulatory requirements;
- Technical knowledge and expertise, including knowledge of relevant information technology;
- Knowledge of relevant industries in which the clients operate;
- Ability to apply professional judgment;
- Understanding of the firm's system of quality management; and
- Organization skills, in particular the organization and management of the engagement such that it is undertaken in an efficient manner and within the required timeframe.

Technological Resources (Ref: Para. A90–A91)

26. The technology needed by the firm to support the operation of the firm's system of quality management and the performance of engagements may vary depending on the size of the firm, its environment and the nature of engagements performed by the firm. The firm may develop technology internally, acquire technology from a third party service provider, or the firm's network may provide technology. The firm's technology support may also be internal or a service provider may be used to provide technology support. Service providers may also be used for the purposes of data storage.
27. The frequency with which the firm may need to acquire, develop or maintain its technology and the nature of the technology acquired may vary depending on the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken. For example, the firm may perform audits of financial statements for entities that have highly sophisticated information technology systems and it may be more effective for the firm to use data analytical tools to perform the engagement, which may need to be updated frequently in response to changes in the entities' systems.
28. In circumstances when the firm acquires a technology from a service provider or uses a technology provided by the firm's network, the firm's responses addressing how the technology is acquired and maintained may include:
 - Evaluating whether the technology will meet the firm's needs and understanding the limitations of the technology.
 - Inquiring about user experiences in using the technology, for example, common errors or functionality issues.
 - Understanding how the technology is developed, tested and maintained.
 - Establishing terms of support with the technology provider, including agreeing on the frequency of updates and maintenance.
 - Understanding the responsibilities of the firm in order to effectively implement the technology, including whether additional tailoring is needed by the firm, user controls that the firm needs to implement to support the technology and how frequently the firm needs to accept updates.
 - In circumstances when there has been an update to the technology, understanding the nature of the changes and the extent to which these have been tested.
 - Determining whether the technology complies with law or regulation, for example, data privacy laws.

29. In circumstances when the firm develops a technology internally, the responses addressing how the technology is developed and maintained may include establishing policies or procedures addressing:
- The design and implementation of the technology.
 - Testing of the technology and approvals for the use of the technology.
 - Changes and maintenance of the technology, including testing of the changes.
 - Documentation relating to the development, implementation and maintenance of the technology.
 - Compliance with law or regulation, for example, data privacy laws.
 - Support resources (e.g., help desks, how-to guides) for those who use the technology as well as appropriate personnel to perform in-house maintenance of the technology as necessary (e.g., program changes, infrastructure changes).
30. The purpose of the security over the firm's technology is to restrict access to the firm's technology, including the underlying data, in order to protect the confidentiality of the data and to ensure that software and applications used by the firm, including in performing engagements, are protected from unauthorized changes. Unauthorized changes to software and applications could result in such software or application operating inappropriately, for example:
- Unauthorized changes to the firm's valuation software could provide outcomes or results that are inaccurate, which could affect the firm's judgments and conclusions in relation to the engagement.
 - Unauthorized changes to the firm's engagement software could result in engagement teams not performing the engagement in accordance with professional standards.
31. Security may include restriction of access to the underlying data, software, operating system and network, as well as restriction of access in the development of internal technology (e.g., internally developed software or applications). Security may also include restrictions on physical access. Security extends to all parties with whom the firm may exchange information or data, including the firm's network, shared service centers or, service providers. Threats to the firm's security may vary depending on the size and complexity of the firm, for example, larger and more complex firms may have significant amounts of data transfer and storage and therefore may have an increased risk associated with the loss of data. Furthermore, firms that perform engagements for entities that have a large and wide range of stakeholders, for example, entities whose shares are traded publicly, may have a higher risk of security breach.

Intellectual Resources (Ref: Para. A93)

32. The nature and extent of the firm's intellectual resources may vary widely, due to the nature of engagements performed by the firm and the nature of entities for whom the engagements are performed. For example:
- Firms that perform audits of financial statements may need to develop a methodology that supports the performance of the audit in accordance with professional standards, whereas firms that only perform compilation engagements or agreed upon procedures may not need such methodologies, but may develop other forms of guidance for these engagements. Furthermore, a firm performing audits of financial statements of particular types of entities may

also develop specific guidance in relation to those entity types, for example, audits of banks and other financial institutions.

- Firms that perform engagements of entities that have a wider public interest may subscribe to information sources that provide information about such entities, including related entities, their management and those charged with governance, which may be useful in supporting the firm's decision about engagement acceptance and continuance.
33. The responses addressing intellectual resources may include:
- Policies or procedures addressing the development of the intellectual resource in the case when this is developed internally.
 - Understanding the responsibilities of the firm in using the intellectual resource when this is obtained externally, for example, whether additional tailoring is needed by the firm.
 - Review and approval of the intellectual resource to determine that it complies with professional standards and applicable legal and regulatory requirements and is appropriate for use.
 - Establishing how the intellectual resource will be maintained in response to changes in professional standards and applicable legal and regulatory requirements or changes in the firm's needs, including how such changes will be communicated throughout the firm.
 - Specifying the documentation in relation to the intellectual resource, for example, documentation of the methodology.
 - Establishing how the intellectual resources will be made available to the firm.

Engagement Performance

Consultation (Ref: Para. A98)

34. Effective consultation on significant technical, ethical and other matters is likely to be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
 - Have appropriate knowledge, seniority and experience,
- and when conclusions resulting from consultations are appropriately documented and implemented.
35. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed typically contributes to an understanding of:
- The issue on which consultation was sought; and
 - The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Engagement Documentation

Completion of the Assembly of Final Engagement Files (Ref: Para. A101)

36. There may be circumstances when two or more different reports are issued in respect of the same subject matter information of an entity, and such reports are generally considered separate engagements for the purpose of the completion of the engagement file, i.e., the time limits for the

assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation
(Ref: Para. A103)

37. Responses that the firm may design and implement to avoid unauthorized alteration or loss of engagement documentation include those that:
- Enable the determination of when and by whom engagement documentation was created, changed or reviewed;
 - Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the internet;
 - Prevent unauthorized changes to the engagement documentation; and
 - Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.
38. Examples of responses that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include:
- The use of passwords among engagement team members to restrict access to electronic engagement documentation to authorized users.
 - Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
 - Procedures for properly distributing engagement documentation to the team members at the start of the engagement, processing it during engagement, and collating it at the end of engagement.
 - Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

Retention of Engagement Documentation (Ref: Para. A104)

39. Responses that the firm designs and implements in relation to the retention of engagement documentation may address:
- The retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation as the underlying technology may be upgraded or changed over time;
 - Recording changes made to engagement documentation after the engagement files have been completed; and
 - External persons who may be authorized to access and review specific engagement documentation, as appropriate to the circumstances.

Monitoring and Remediation Process

Designing and Performing Activities to Monitor the Design, Implementation and Operation of the Responses (Ref: Para. A108)

40. Examples of monitoring activities may include:
- Evaluating actions by leadership in establishing an appropriate tone at the top and culture that supports quality.
 - Interviewing firm personnel to evaluate the effectiveness of the firm's communication in relation to certain matters.
 - Evaluating who within the firm has been assigned responsibility for establishing the quality objectives, identifying and assessing quality risks and designing responses to the quality risks, and how such personnel have gone about doing so.
 - Using peer reviews, or other types of reviews, designed with the purpose of monitoring areas of the firm's system of quality management.
 - Applying automated alerts in relation to engagements, for example, automatic notifications when policies are not applied.
 - Inspecting records regarding the provision of non-audit services by other service lines within the firm to establish that prohibited services were not provided to an audit client.
 - Checking records of attendance at training events for compliance with the firm's policies on professional development.
 - Inspecting time records for (i) number of hours spent by engagement partners and other senior personnel and assessing the appropriateness of such hours; or (ii) evidence of involvement of experts on certain types of engagements such as audits performed in respect of certain industries, to determine the appropriate use of experts.
 - In the case of a smaller firm, as a result of the close oversight of the firm, periodic consideration of matters such as whether:
 - The firm's communication appears effective, based on the daily interactions with firm personnel; or
 - Staff have complied with the firm's policies or procedures.
41. Examples of how the nature, scope and frequency of the firm's monitoring activities may vary include:
- The firm's monitoring activities in relation to evaluating the governance principles may be performed periodically and less frequently than the monitoring activities in relation to engagement performance.
 - The firm may determine that more frequent monitoring activities are needed in relation to certain types of engagements, for example, entities operating in industries that are subject to frequent change or engagements where a high number of deficiencies have been identified through previous monitoring activities.
42. The determination of whether those performing monitoring activities are sufficiently objective depends on the activity subject to monitoring. For example, an activity involving the exercise of judgment may necessitate heightened objectivity by those performing the monitoring activities than

activities with no judgment. In some circumstances, the monitoring activities in relation to an activity that is automated could be undertaken by those involved with the activity (e.g., the monitoring of the firm's automated process for identifying breaches of the firm's independence policies or procedures). In considering the objectivity of those performing the monitoring activities, the firm may take into consideration the relevant ethical requirements that may set out a framework in addressing a threat to objectivity.

Root Cause Analysis and Evaluating the Effect of Deficiencies (Ref: Para. A124–A125)

43. In some circumstances, the firm's process for investigating the root cause(s) of a deficiency may be more complex and may include:
- Identifying those responsible for performing the root cause analysis, and establishing their competency to do so, including providing training on how to effectively investigate the root cause(s).
 - Determining the nature, timing and extent of the root cause analysis.
 - Conducting interviews of engagement teams and others, in order to gain insight into what may have caused the deficiency.
 - Evaluating the evidence and other information available and identifying the root cause(s) based on such evidence.
44. The firm may perform a trend analysis in order to assist with investigating the root cause(s) of a deficiency. Trend analyses may also be used by the firm in relation to those findings identified by the firm through its monitoring activities, external inspections or other relevant information, that the firm has not determined are deficiencies. In some circumstances, such analyses may indicate that a deficiency exists, particularly when it is identified that a finding is pervasive or systemic.
45. Examples of root causes in relation to the various components of the system of quality management include:
- The purpose and values of the firm, as well as the expected behaviors of the firm's personnel are not well defined.
 - The firm fails to communicate information to engagement teams.
 - A risk to a quality objective is not identified by the firm as the firm has not established an effective process for risk identification, and therefore there is no response designed and implemented to address the quality risk.
 - Resources to support the firm's quality management or engagement teams are inappropriate, for example, the methodology or software is outdated.
 - Incentives established for firm personnel promote financial considerations to the detriment of quality.
 - The firm culture does not promote consultation on difficult issues or the firm's process for addressing differences of opinion is not clear or well established.
 - The firm acceptance procedures are not followed and the firm accepts a client that lacks integrity, or the firm accepts an audit engagement and the firm does not have personnel with the necessary industry expertise to perform the engagement.

- Engagement team members have insufficient knowledge of the firm's methodology due to a lack of training.
- Firm personnel knowingly breach the firm's policies or procedures or disregard professional standards.
- The time and resources allocated to perform an engagement is insufficient.
- Engagement team members do not effectively communicate with others involved in the audit, e.g., in the case of a group audit.
- There is an absence of cooperation and open dialogue with management and those charged with governance, or the engagement team fails to discuss their needs with management and agree an appropriate timetable.
- The firm operates in a jurisdiction where cultural expectations prevent less experienced engagement team members from challenging individuals with more authority (e.g., the engagement partner or client management).

Documentation (Ref: Para. A156)

46. Documentation that demonstrates the firm's governance and leadership and matters related to the firm's culture may include documentation of how the responsibilities within the firm are assigned. The actions of firm leadership also provide evidence of the firm's governance that may be documented in a variety of ways, for example, consultations, minutes of meetings or communications from firm leadership.

Summary of Results on Questionnaire: *Are the International Standards on Auditing (ISAs) appropriate for auditing Small and Medium Entities, and can they be applied by auditors in Small to Medium Size firms?*

Introduction

1. The scalability of the international standards on auditing has been recognised internationally as a challenging issue.
2. The International Auditing and Assurance Standards Board (IAASB) will be having a two day workshop in January 2017 to explore the challenges facing practitioners in the audits of SMEs, and how the IAASB standards can be more scalable.
3. As the NZAuASB's auditing standards are based on the international standards of auditing, the NZAuASB has been invited to provide feedback to the IAASB on the issues experienced by New Zealand practitioners. Craig Fisher has been invited to represent the NZAuASB at the IAASB SMP working conference to be held in Paris.
4. We sent out a survey in December 2016 to all registered auditors to obtain their feedback on the scalability of the international standards for auditing SMEs. In addition, we sent out specific requests targeting mid-tier firms and the special audit interest group. CAANZ also published the questionnaire in its Newsletter in December 2016, and we included it in the December XRBrief.
5. We asked the following questions in the survey:
 - i. What would you define as an SME?
 - ii. Which auditing standards listed do you have difficulty with in applying to audits of SMEs (standards listed were the Quality Control Standard, individual standards in 200-299 *General Principles and Responsibilities*, 300-499 *Risk Assessment and Response to Assessed Risks* and 500-599 *Audit Evidence* series.)
 - iii. For any standard identified above as being difficult to apply, please tell us why.
 - iv. Are there any other standards you find difficult to apply? Please tell us why.
 - v. Any other comments?

Overview of results

6. We received 48 responses to the survey. We note that:
 - the majority of respondents only answered question (i);
 - 24 respondents answered question (ii);
 - in many instances no reasons were noted why a standard was considered difficult to apply- only 14 respondents answered question (iii);
 - in some instances the reasons noted appear to relate to the requirement of the standard in general, and not to the size of the entity being audited.
7. A summary of the results follows, with detailed comments received included in the Appendices.

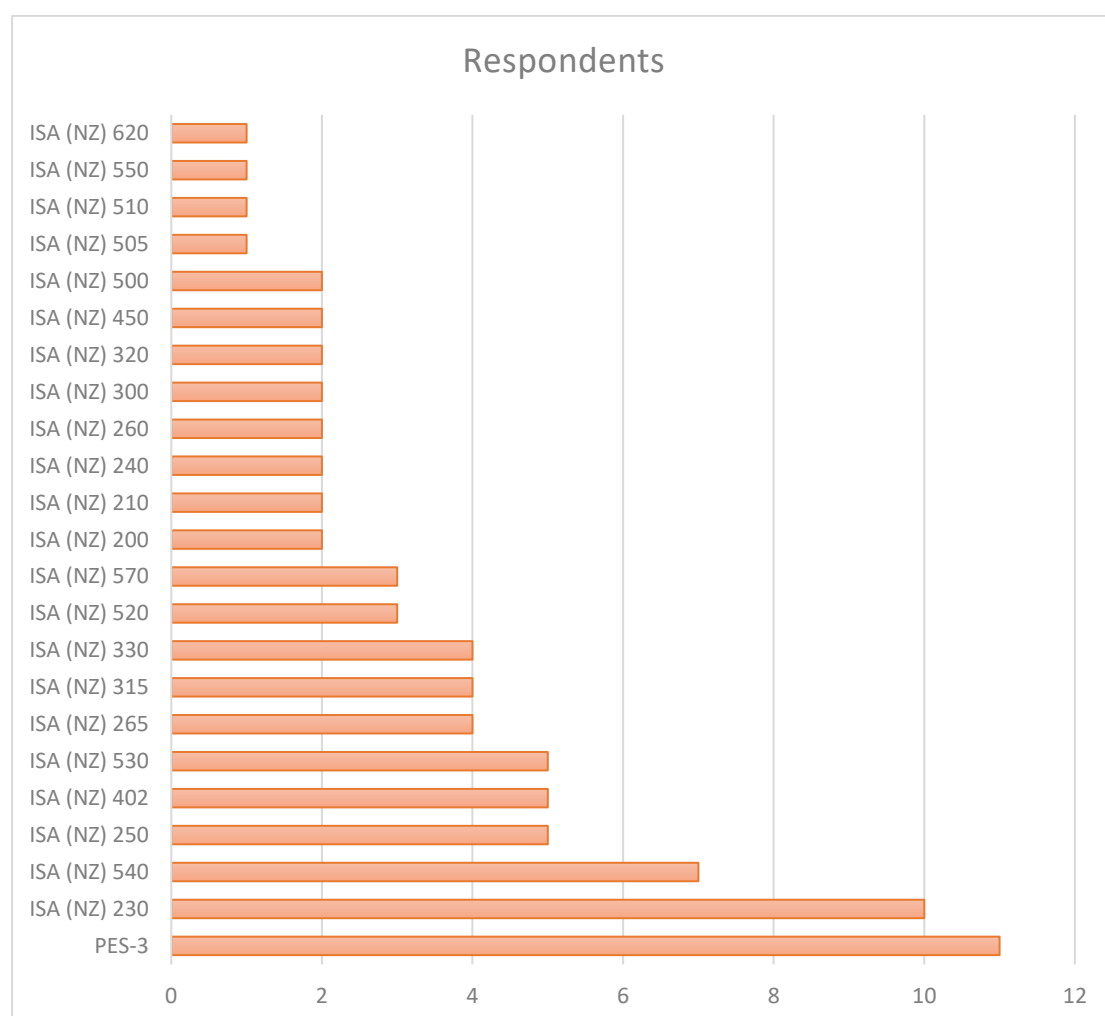
Summary of overall comments on definition of an SME.

8. The responses received indicated clearly that auditors apply different criteria in defining an SME, and that there is no single definition.

9. The majority of respondents classified an entity as an SME based on the size of its turnover. However, the range for entities classified as SMEs varied from entities with turnover less than 30 million to those with turnover less than 1 million.
10. Other criteria used in various combinations are the size of the assets, limited number of customers and suppliers, close ownership group, number of employees, level of expenditure and other qualitative factors.
11. A list of the individual responses on the definition of a SME is available at Appendix 1.

Summary of comments received on auditing standards that are difficult to apply to SME audits, and why those standards are difficult to apply.

12. The chart below indicates how many respondents noted a specific standard as difficult to apply in the audits of SMEs. Note only 24 respondents provided feedback on this question.



- PES-3 had the highest number of respondents selecting it as difficult to apply.
- Based on the number of respondents that selected a particular standard as difficult to apply in the audit of SMEs, the most difficult standard to apply is ISA (NZ) 230

*Documentation*¹. An overall comment noted is that the difficulty in applying ISAs for SMEs is not in relation to any specific audit standard, but with the level of documentation in the planning and risk assessment areas of the audit.

- ISA (NZ) 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* is the next standard identified by respondents² as difficult. Documentation requirements and the entity's lack in sophistication in preparing the fair value and related disclosures were noted as reasons for the difficulty.
- *The next group of standards noted to be difficult to apply are*³:
 - ISA (NZ) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
 - ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*
 - ISA (NZ) 530, *Audit Sampling*.

The detailed results on the standards identified as well as the reasons noted why difficult to apply is included in **Appendix 2**.

Other comments

13. Respondents noted the following other comments. (This feedback was received from 13 respondents)

- There should be no changes to the auditing standards that will result in the quality of the audits of SMEs being diminished relative to the larger entity audits.
- The same principles should apply to any audit (no matter what its size).
- Tailoring audit standards for SMEs and especially NFP would be a good step forward.
- There are too many auditing standards and they are too complex, and don't necessarily agree within themselves or with the others. SME audits will always have a high element of substantive testing as controls can only be relied upon to a low extent as accounting teams may only have 6 members or less, yet the standards prescribe excessive risk testing it appears for the sole sake of risk testing.
- The difficulty in applying ISAs for SMEs is not in relation to any specific audit standard, but overall with the level of documentation in the planning and risk assessment areas of the audit dominating the time taken to undertake the engagement. This then puts significant pressure on the time spent on the engagement as these typically have very low fee recoveries as a result. The issue is not a result of the ISAs themselves but :
 - i. the pricing of SME audits;
 - ii. the perceived value / cost of what an audit should be by clients; and
 - iii. the appropriateness of an audit for the clients intentions.
- There are too many standards that are not applicable to SMEs and the compliance cost is prohibitive and not recoverable.
- The real difficulty in provincial area is dealing with some service organisations/entities that have limited expertise and capacity in account preparation-and managing client expectations' as to fee level. Often we know if we don't do a "substantive" type audit

¹ Selected by 10 respondents

² Selected by 7 respondents

³ Selected by 5 respondents

we won't find the errors but the current planning/ISA requirements force you to put time into those areas to satisfy the "rules". But not enough budget time-or ability to recover time and cost doing both.

- Overall, it is not any one standard that is difficult to apply, but the level of documentation required.
- A key frustration is the lack of liaison/co-ordination between regulators and funders on audit requirements. We have in particular historically found a lack of representation by organisations representing Small to Medium Practitioners (SMP's) and state regulators.

14. Respondents also noted the following possible solutions to consider.

- Some scaling down of documentation around controls (particularly if they are not being relied upon).
- For audit efficiency, perhaps the best way to proceed is to have/create a set of rebuttable presumptions for SMEs. These form the platform of the audit file, and they are only modified if they are not applicable to the circumstances.
- If you want audit quality – then there is still a need for the EQCR (i.e. they should not be taken out of the equation on the basis of cost)
- Confirmation of acceptable sampling populations would help (the suggestion here is for some “paint by number” instructions to address this part of the audit).
- Review (i.e. limited insurance) engagements should not be omitted from the scope of this project. The suggestion is to consider audit and review for SMEs at the same time.
- No concessions should be given on the requirements to interact and communicate with “those charges with governance”.
- Maybe regulation should be reduced and the market should decide the level of documentation required.
- The solution is to move towards engagements of a much narrower scope to address the significant elements of the organisation that assurance is needed, and not on the financial statements as a whole, unless this is required. This will then allow the engagement to be targeted to those areas where the most value for the audit can be derived, and typically for which those requesting an 'audit' are typically after (i.e. focussing on expenditures and payments in a not-for-profit setting; balance sheet audits from a solvency perspective; revenues and key assets from a business acquisition perspective).
- A return to conceptual standards rather than prescriptive standards would be great. Why not start with a simple principle based, in normal English, concise single standard for SME's? (like the XRB did for tier 3 & 4's accounting standards)
- There needs to be a better alignment with the overall risk profile of the audit and the standard requirements. Generally these are not high risk engagements, albeit there are generally not strong controls due to the small size and inherent segregation of duties risks and ability for management override of controls in place. There is however usually significant fee pressure. The ability to place reliance on the external professionals without significant additional work by the engagement team and some relaxing of documentation requirements would assist significantly.

- Developing ISAs with a RDR component - so you don't have to document so much when undertaking SME audits.
- The constant updating of standards is also leading to a reduction in the quality of audits. Maybe regulation should be reduced and the market should decide the level of documentation required.

Attachments:

Appendix 1: Individual comments received on the definition of an SME.

Appendix 2: Detailed results on the standards identified as well as the reasons noted why difficult to apply.

APPENDIX 1: Individual comments received on the definition of an SME

Question 1: What would you define as an SME?

- Under \$2m Turnover.
- Under 2 million turnover.
- Gross turnover <A\$5m.
- Turnover under \$10m employees under 20 net assets under \$5m.
- Turnover less than 10 million and less than 100 employees.
- Anything below the thresholds set in the reporting framework i.e. \$30m Rev / \$60m assets.
- Revenues less than 10mil.
- Revenue of less than NZ\$1M.
- Closely held, limited segregation of duties - less number of staff, revenue less than a threshold (say \$10m), not complex accounting systems and users of the financial statements are limited to directors/owners.
- An entity that meets the criteria for tier 3 and 4. However, it is not always about expenditure and can often be about complexity. An entity may be relatively simple (for example a school) even if it has relatively large expenditure (and therefore reports in tier 2). For these entities the ISAs can add unnecessary complexity.
- <50 employees< 10 owners.
- Difficult to define or put a dollar value limit on, but in the NZ context, perhaps anything less than \$20m turnover. There may be other qualitative characteristics as well such as a limited number of customers or suppliers, limited changes in the business over time and a close ownership group.
- Turnover less than \$20m.
- Per the FRA 2013; if overseas company is large at \$20M assets or \$10M revenue per year anything under will be an overseas SME. If an NZ coy is below \$60M assets or \$30M revenue then it will be an SME. We need the lower limit for overseas companies as they are more ethically challenged. The same applies to non-company structures.
- Smaller entity with little public interest which is likely to have limited controls, and may well have common management, governance and ownership.
- Any entity that does not report in Tier 1 of either the for-profit or PBE frameworks, or a for-profit entity with greater than \$30m revenue / \$60m assets (i.e. report in Tier 2 but are large).
- Entities with revenue less than a \$1m.
- Turnover less than \$1m, less than 20 staff.

- Volume and number of units serviced, i.e. childcare operations, definition would be based upon numbers of children utilising the centre, extra-curricular activities would be focusing on total members of the organisation. Therefore a small childcare centre may have 15 children yet require 5 staff due to ration requirements, extrapolated out under public sector definition of large business based upon employees, and you have a medium sized operation classifying as large. Likewise clubs and societies.
- SME cover all sectors, for profit and not for profit. Size criteria as currently defined is probably appropriate.
- Consider SME's to be closely held with revenue between \$5m-\$25m.
- A business with less than 50 staff and less than \$10m in revenue.
- Good question. In the international context virtually all NZ entities would be considered SME's. In the NZ context I would use \$5m turnover/expenditure as a starting point. No particular reason, just feels about right.
- Turnover < 1.5m Less than 10 staff.
- In our provincial context t/over under \$2.00mil.
- A small or medium company of up to \$10M turnover.
- Company with sales (revenue) between \$2 million and \$30 million or total assets between \$1 million and \$60 million. Below those it is a "micro business".
- An entity that has expenditure below a certain figure and no complex accounting issues.
- Up to \$1M turnover.
- Under \$500k expenses and/or less than 20 staff.
- Income up to \$10m and low number of staff.
- Closely held entities with moderate turnover.
- Turnover under \$2 million, assets under \$10 million.
- An audit fee of up to \$10k.
- Tier 3 and 4 entities - PBE and Tier 3 entities - for-profit.
- Under \$1 million income.
- Small enterprises of up to 20 employees (mbie.govt.nz) or up to say \$1,000,000 in total expenses.
- Small to medium sized entity - revenue or expenditure below \$10m - \$15m.
- I would tend to align them with the definitions of meeting Tier 2 RDR.
- Less than 50 employees.

APPENDIX 2: Detailed results on the standards identified as well as the reasons noted why difficult to apply.

The table below lists the standards identified as difficult to apply in the audits of SMEs, from the standard selected by the highest number of respondents to the lowest, as well as the reasons noted why difficult to apply.

Standard identified as difficult to apply in audits of SMEs	Number of respondents	Reason(s) noted why difficult to apply
PES -3. <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i>	11	<ul style="list-style-type: none"> • Being a sole practitioner, can't apply all quality control measures. • Small audits are usually carried out by small firms or sole traders. They often do not have access to suitably qualified people in their firm to carry out the necessary quality assurance procedures.
ISA (NZ) 230, <i>Audit Documentation</i>	10	<ul style="list-style-type: none"> • The other standards themselves are not a problem, but efficiently documenting compliance with them is challenging. • While the entities are generally much smaller and have simple operating procedures, a level of documentation consistent with large audits makes it difficult to do this on a reasonable time and cost basis. Often the nature of these audits is that there is not a strong control environment so question the benefit of having to document systems and controls annually when little usually changes. • Limited client understanding of audit requirements; limited funder understanding of audit requirements; limited financial and staff resources available to Small to Medium Practitioners (SMPs). • Difficult to maintain the same level of documentation required for the fee agreed. • Providing enough evidence to prove professional scepticism. • The expected level of documentation is very high sometimes for small clients. • The principles are right - it's satisfying the documentation expectation of independent re-performance that is time consuming.

ISA (NZ) 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>	7	<ul style="list-style-type: none"> • Clients often lack sophistication when preparing fair value calculations. • A disproportionate amount of time spent on documenting this in audits for limited benefit.
ISA (NZ) 250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	5	<ul style="list-style-type: none"> • So many that impact on entities-identifying those which are material amongst the alternatives
ISA (NZ) 402, <i>Audit Considerations Relating to an Entity Using a Service Organisation</i>	5	<ul style="list-style-type: none"> • Adds a whole layer of time and complexity to jobs that have lower threshold of fee levels. • Often where an external expert or service organisation is used, the amount of time taken reviewing type 2 reports or otherwise verifying the accuracy of the information is disproportionate to the benefit gained to the audit process. Should only need a significant review if there are concerns about the validity of the information.
ISA (NZ) 530, <i>Audit Sampling</i>	5	<ul style="list-style-type: none"> • No hard and fast rules for non-statistical sampling. • Amount of testing required to form a conclusion on the population can be high (if errors found in testing).
ISA (NZ) 265, <i>Communicating Deficiencies in Internal Control to those Charged with Governance and Management</i>	4	<ul style="list-style-type: none"> • TCWG often see the audit as compliance and an expense, and feel the communication from auditors does not add value. • Standards require communication where there is a gap in control, but this is difficult as in most cases it's due to lack of segregation of duties which the entity can't remedy.
ISA (NZ) 315, <i>Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment</i>	4	<ul style="list-style-type: none"> • Risk assessments are key to an efficient and good quality audit. Small and non-complex entities usually have simple systems and controls and often the standard is followed without the clear understanding of the systems and controls. The linkage to how any risks identified are addressed is key but this is often not done well. • Replace jargon with common English. e.g. "assertions" is not well understood despite being defined. Many think these all need to be done, when in fact they are just parts of the

		auditor's toolbox. And use of the jargon is expected - I've had reviewers query if "sight fixed assets" is confirming "existence". Emphasize that Judgement should be used in each procedure, not that each procedure needs to be used and documented.
ISA (NZ) 520, <i>Analytical Procedures</i>	3	<ul style="list-style-type: none"> Analytical review procedures are very useful and the requirements of ISA 520 in regards to substantive analytical procedures are clear, but in practice not always followed. Some practical guidance on how to apply these would be useful. Too complex and prescribes too many procedures.
ISA (NZ) 570, <i>Going Concern</i>	3	<ul style="list-style-type: none"> Time constraints and lack of good future forecasting for some service organisations
ISA (NZ) 200, <i>Overall objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)</i>	2	<ul style="list-style-type: none"> The overall standard assumes applying to large entities and places an obligation to consider all matters
ISA (NZ) 210, <i>Agreeing the Terms of Audit Engagements</i>	2	<ul style="list-style-type: none"> No reasons noted.
ISA (NZ) 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>	2	<ul style="list-style-type: none"> No reasons noted.
ISA (NZ) 260, <i>Communication with Those Charged with Governance</i>	2	<ul style="list-style-type: none"> Time constraints in meeting (sometime) very tight deadlines- especially when dealing with service providers.
ISA (NZ) 300, <i>Planning an Audit of Financial Statements</i>	2	<ul style="list-style-type: none"> Full planning procedures as would be done for large complex organisations means lots of work and documentation for little real benefit or efficiency improvements in the audit. Linking the definition of small to that of not being large in the Financial Reporting Act 2013 would be good. Also list that the small audit provisions apply to all non-large (per FRA 2013) audits by default. Perhaps come up with a simplified SME audit standard (one standard) like you did with tier 3 and 4 Not for Profits. As it is this standard is too complex and has too many procedures in it. The level of expected planning for small entities exceeds what is required

		<ul style="list-style-type: none"> How much documentation is sufficient to prove adequate consideration
ISA (NZ) 320, <i>Materiality in Planning and Performing an Audit</i>	2	<ul style="list-style-type: none"> Applying it consistently (i.e. is it materiality based on profit before tax, or some other basis) and why? Para 14 includes performance materiality as a "shall" document, when it is optional depending on audit or judgement; please insert "if used" at the end of this line. The whole standard is too complicated and prescribes too many procedures.
ISA (NZ) 450, <i>Evaluation of Misstatements Identified During the Audit</i>	2	<ul style="list-style-type: none"> A2 says triviality "may" be designated, but 15a says it "shall". For SME's 'may' would be better.
ISA (NZ) 500, <i>Audit Evidence</i>	2	<ul style="list-style-type: none"> While this standard is not difficult to apply, a small audit usually attracts a small audit fee and some practical guidance on what is good evidence would be useful.
ISA (NZ) 505, <i>External Confirmations</i>	1	<ul style="list-style-type: none"> Delays experienced in complying Anti-Money Laundering and Countering Financing of Terrorism Act 2009, particularly for first year audits have made it increasingly difficult to meet audit cut-off reporting dates, particularly when client's sign audit engagement letters within 2 weeks of the reporting deadline. There is still some expectation of confirmation every year and also the methods of confirmation are getting harder with places like Confirmation.Com.
ISA (NZ) 510, <i>Initial Audit Engagements – Opening Balances</i>	1	<ul style="list-style-type: none"> Checking other auditors' files is very time consuming and costly and lots of times access is refused. It should list that opening balances, audited previously by another reputable auditor, can be relied upon.
ISA (NZ) 330, <i>The Auditor's Responses to Assessed Risks</i>		<ul style="list-style-type: none"> Lots of entities have little controls and substantive audit is by far the most efficient. Documenting controls and writing letters etc. imposes more time on audits It can be difficult to plan appropriate tests within the fee. As noted for ISA 315 it is difficult to focus in on the key risks by following the requirements of

		315, it then follows that the response to those risks is not clear.
ISA (NZ) 550, <i>Related Parties</i>	1	<ul style="list-style-type: none"> Getting the clients to identify all the related parties prior to commencement of the audit.
ISA (NZ) 620 , <i>Using the Work of an Auditor's Expert</i>	1	<ul style="list-style-type: none"> Dealing with experts within the firm to get the level of comfort required - there's a lot of process

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1

Meeting date: 11 April 2018

Subject: National Standards Setters Meeting -IESBA

Date: 28 March 2018

Prepared by: Misha Pieters

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Objective

To consider matters to raise at the IESBA NSS meeting to be held in May 2018 in Vienna.

Background

1. The Chair of the NZAuASB and Director of Assurance Standards will attend the NSS meeting in May. The agenda covers:
 - a. Matters arising in each jurisdiction – Long association (dual listed example)
 - b. Feedback on the IESBA Strategic Work Plan
 - c. Roll out of the restructured Code
 - d. E-code
 - e. Non-assurance services
 - f. Update on Monitoring Group proposals

Matter for discussion

2. The Board is asked for feedback to be conveyed at the NSS meeting on these topics.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Matters to discuss
Agenda item 6.3	Draft IESBA Strategy and work plan Consultation paper – from March papers

Date	9 March 2018
Author	Misha Pieters
Subject	IESBA NSS - matters to include in the New Zealand country report and for discussion in individual agenda items

The Board is asked to comment on matters to be raised in the agenda items.

Matters arising in each jurisdiction

1. The NZAuASB has adopted the international amendments to the long association provisions. The Board has also issued and **added to the IESBA's FAQs and included** these on the [XRB website](#) in an interactive format.
2. The impact of the amendments remains of some concern to some New Zealand practitioners because of the relatively large number of public interest entities and small number of licensed auditors. For some, the new requirements may force firm rotation.
3. The definition of a public interest entity (PIE) was at the heart of the debate in New Zealand, given that the NZ PIE definition is broader than listed entities, including FMC reporting entities, large public sector and large not-for-profit entities.
4. It would be interesting to better understand the ways in which the long association amendments have been adopted in other jurisdictions, and whether the PIE definition has come under scrutiny in other jurisdictions because of the long association amendments.
5. Legal advice has been sought on how the transitional arrangements will work for dual listed entities, i.e. the implications of legislative provisions in Australia that allow listed entities to make use of the transitional provisions. The NZAuASB intends to develop further guidance in the New Zealand context.
6. The Board is asked for further comments related to recent ethical issues arising in the New Zealand context.

Feedback on the IESBA Strategic Work Plan

7. In [response to the IESBA's Strategy Survey Questionnaire in August 2017](#) the NZAuASB was supportive of the IESBA prioritising the following topics, in the following order:
 1. Trends and developments in technology and innovation
 2. Emerging or newer models of service delivery
 3. Collective investment vehicles
 4. Concept of PIEs and listed entities and the meaning of public interest
 5. Documentation
 6. Materiality

8. The ongoing need for co-ordination with the IAASB was raised as was the need for a post implementation review of the restructured code, including NOCLAR and long association revisions.
9. The draft consultation paper identifies four strategic themes:
 - a. Maintaining a global Code that is relevant and fit for purpose;
 - b. Raising the ethical bar through further strengthening the Code;
 - c. Raising the ethical bar through increasing global adoption and effective implementation of the Code; and
 - d. Proactively engaging and seeking cooperative avenues with key stakeholders.
10. The draft identifies pre-existing commitments of the IESBA including:
 - a. Professional scepticism – project proposal anticipated Q4 2018
 - b. Non-assurance services (NAS) – fact finding to commence Q1 2018
 - c. Fee-related matters – fact finding commenced Q1 2016
 - d. Post-implementation review of NOCLAR and long association (both target to commence Q1 2022)
 - e. Consistency of Part 4B with ISAE 3000 – commencing Q3 2018
 - f. E-Code – how best to leverage new technologies to make Code as easy to access and use as possible (e.g. enhanced search facility, links to BCs/staff publications). WG established in Q1 2018 – first priority is to look for ways to enhance the search function.
11. The draft also identifies new items to be added to the work plan based on the feedback to its strategy survey including:

Clear priorities

- a. Trends and developments in technology – determine areas of highest priority, scope of issues and how best to address them. WG already established.
- b. Emerging or newer models of service delivery – understand evolving service delivery models, may overlap with technology project. Target to establish WG in Q1 2019.
- c. Tax planning – outside the mandate of the NZAuASB.

Other priorities

- d. Definitions of PIE and listed entity – some regulators have asked IESBA to re-examine the definition of a PIE from the perspective of financial institutions, while other regulators commented that they do not have the capacity to tailor the definition of a PIE to their specific national circumstances. SMPs have expressed concern at increasingly disproportionate requirements where audits or reviews are provided to small entities that fall within the PIE definition. **Questions have also been asked about the meaning of “listed entity”.** Target to commence work in Q2 2021.

- e. Materiality e.g. as it applies to business relationships and financial interests. Project will consider standards or other publications issued by the IAASB or IASB and may involve coordination with other boards. Target for a project proposal is Q1 2021.
 - f. Post-implementation review of the restructured Code – target to commence Q2 2023
 - g. Communication with those charged with governance – subject to capacity. Strengthening the provisions may increase transparency **around firms’** identification and evaluation of threats to compliance with the fundamental principles and independence requirements, and the actions or measures taken to eliminate or reduce those threats to an acceptable level. Doing so could also clarify that auditor independence is a joint responsibility, and respond to regulatory stakeholders who have expressed views that a party other than **the auditor itself should consider the auditor’s independence.**
 - h. Documentation – during the safeguards project, the IESBA identified a need to reconsider the nature, extent and location of material relating to documentation in the Code holistically
12. The draft work plan also highlights the need for ongoing coordination with the IAASB and IAESB (to a lesser extent).

13. The board is asked for feedback on whether:

- a. you support the actions that have been identified in the draft consultation documents with respect to each strategic theme and the priorities given to each?
- b. there are additional actions that you consider should be included in the response, and/or raised at the NSS meeting?
- c. any other comments?

Roll out of the restructured Code

- 14. The restructured Code will be released by early April 2018, together with the Basis for Conclusions, At a Glance, Slide decks, a summary of the important messages about the 2018 Code and some short video clips by the IESBA Chairman, CAG chairman and the task force chairs.
- 15. A working group has been formed to establish a rollout plan aimed at promoting awareness, adoption and implementation of the restructured Code.
- 16. The working group is planning to mobilise IESBA members, TAs, CAG, NSS and others to assist in the rollout and is seeking to assist in:
 - a. Identifying opportunities to promote the Code at local, national, regional and international conferences;
 - b. Hosting webinars, webcasts and other multi-media events;

- c. Authoring general and audience specific articles and publications on key aspects of the 2018 Code.
- 17. The Board is asked for views about ways to promote the restructured code in New Zealand. Ideas could be shared at the NSS as there may be opportunities for New Zealand to get involved in the roll out project.
- 18. Possible activities could include:
 - a. Writing articles for CAANZ
 - b. Preparing FAQs for the XRB website
 - c. Hosting a webinar when the restructured code is exposed and/or issued in New Zealand. We are in the process of developing a webinar plan for all the relevant projects of the board and tentatively consider that a webinar on the restructured code should occur in August or with the release of the New Zealand exposure draft. If IESBA staff/members travel to the World Conference in September, it may be possible to arrange for them to visit New Zealand to promote the restructured Code.

19. Does the Board have views on the identified actions or additional actions to consider, and/or to raise at the NSS meeting?
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E-code

- 20. The e-Code initiative is a pre-existing commitment for IESBA. Since 2014, an electronic version of the Code has been available on the [IESBA's website](#), that is based on the extant code.
- 21. When approving the restructured Code, the IESBA considered that enhancement to the existing electronic Code could improve the user experience of the restructured code.
- 22. The WG is considering outreach to better understand whether and how the code is used by different stakeholder groups. The NSS meeting will be an opportunity for national standard setters to share their experience.
- 23. In New Zealand, there are many additional New Zealand paragraphs added to the IESBA code in PES 1. Adoption of an e-code in New Zealand will require development of a website platform that can support an e-code.

24. The Board is asked for their views on (a) how the E-Code is used in New Zealand and (b) going forward how you would like to use the e-Code? Those views can be contributed to the NSS discussion.

Non-assurance services (NAS)

- 25. In December 2017, the IESBA established a working group to respond to concerns raised related to the provision of non-assurance services to audit or assurance clients.
- 26. The working group has identified the following issues to explore:

- a. When considering whether it would be appropriate to provide NAS to an audit or assurance client, should firms and network firms be allowed to take into account whether a potential threat is material or significant?
 - b. When developing provisions in the Code to govern the provision of NAS to audit or assurance clients, should a distinction be drawn between those audit or assurance clients which are public interest entities (PIEs), as compared with those that are not PIEs?
 - c. Should the Code contain provisions governing the nature and extent of auditor communications with those charged with governance (TCWG) about NAS (e.g., pre-approval of NAS or disclosure to TCWG of NAS)?
 - d. Should the Code contain provisions establishing limits and disclosure requirements in relation to the amount of fees charged for NAS and the percentage of NAS fees versus audit fees?
27. The WG is also looking at whether the IESBA should seek to align the NAS provisions of the Code with local codes, laws and regulations of the G-20 jurisdictions and will look to understand:
- a. The extent to which there are common elements to the NAS provisions in the Code and those in local ethics requirements.
 - b. Where there are differences in the NAS provisions reviewed, the rationale for those differences. For example, the WG will seek to determine whether there are legal, regulatory or other circumstances at the jurisdiction level that necessitate the level of specificity and prescriptiveness of NAS prohibitions across the G-20 jurisdictions.
28. The WG is planning to host global roundtables in conjunction with the Professional Scepticism WG during June-July 2018 in Asia, Europe and North America. This will be by invitation only, but the NZAuASB has received one.
29. Some issues related to NAS were identified in the safeguards project that were considered to be beyond the scope of the safeguards project. For example, some respondents to the Safeguards exposure draft suggested that the Code should more closely align with the NAS provisions in their jurisdictions (e.g., in Europe with the EU Audit Regulations). In particular, these relate to the provision of:
- a. Bookkeeping and preparing accounting records and financial statements, including those NAS of a routine or mechanical nature provided to divisions or related entities;
 - b. Designing and implementing internal control or risk management procedures;
 - c. **Services related to the audited entity's internal audit function;**
 - d. Services linked to the financing, capital structure and allocation, and investment strategy; and
 - e. Litigation support services for PIEs when it is used for the purpose of **advancing the entity's interest in a legal proceeding or investigation with respect to amounts that are material to the financial statements subject to audit or review.**

30. We have sought input from the Financial Markets Authority (FMA) related to concerns it has regarding the provision of NAS in the New Zealand context. We are aware that the FMA is concerned about the level of NAS provided to audit clients and that it believes the Code should be strengthened. There is no clear evidence that the firms are considering independence in appearance issues, with the result that there are some high levels of non- assurance services being provided relative to the audit fee. The comment has been made that the ethical standards are not strong enough. A possible solution may be to set a cap on non-assurance services, similar to what the OAG has done.

31. Options under consideration by the WG:

- a. establish in the Code an all-inclusive and up-to-date list of NAS that firms and network firms might provide to their audit or assurance clients, together with appropriate provisions and prohibitions. However, this may be impractical because new NAS are created as a result of evolving business practices and financial markets, as well as advancing technologies.
- b. Retain current approach – prohibiting the assumption of management responsibilities when providing NAS, with individual prohibitions where the IESBA has determined that the threats created cannot be eliminated or safeguards cannot be applied to reduce the threat to an acceptable level, with specific provisions to assist in identifying the threats.
- c. Rather than distinguishing between PIEs and Non-PIEs looking at audits of small and medium sized, owner managed enterprises instead of PIEs versus non-PIEs, or some other classification
- d. The nature of threat created by each type of NAS to form a view about whether firms and network forms could continue to provide those NAS that create advocacy threats.

2. The board is asked for initial views on the matters identified by the WG, and points that could be contributed to the NSS discussion.

**DRAFT IESBA STRATEGY AND WORK PLAN, 2019-2023
CONSULTATION PAPER**

About the IESBA

The International Ethics Standards Board for Accountants (IESBA) is a global independent standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, that seek to raise the bar for ethical conduct and practice for all professional accountants (PAs) worldwide through a robust, globally operable *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (the Code).

The IESBA believes that a single set of high-quality ethics standards can enhance the quality and consistency of services provided by PAs throughout the world, thereby contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

FOREWORD

By Dr. Stavros Thomadakis, IESBA Chairman

[To be added after March 2018 IESBA discussion]

Introduction

1. This consultation paper seeks views from all stakeholders on the IESBA's proposed strategy for 2019-2023, and the proposed actions and priorities (work plan) to implement the strategy. The IESBA invites comments on any aspect of its proposed strategy and work plan (SWP).
2. This Consultation Paper sets out the following:
 - I. **Vision for the Code and Strategic Themes** – The IESBA's vision for the Code and the strategic themes that will guide its actions in pursuit of this vision over the strategy period.
 - II. **Key Considerations Guiding the Establishment of the Work Plan** – The criteria and key factors that affect the determination of potential actions in the strategy period and the relative priorities of those actions and their timing.
 - III. **Managing Delivery of the Strategy and Work Plan 2019-2023** – How the IESBA expects to manage delivery of the SWP within its given capacity and resources.
 - IV. **Proposed Actions, Priorities and Timing** – Identified actions, priorities and timing aligned to the strategic themes.

I. Vision for the Code and Strategic Themes

The IESBA's vision is for the Code to lay a foundation of strong ethical principles, values and standards to underpin trust in the global accountancy profession in a dynamic world, and to enable it to act in the public interest.

3. The IESBA's pursuit of this vision during the period 2019-2023 will be supported and guided by the following four strategic themes:
 - (a) **Maintaining a global Code that is relevant and fit for purpose;**
 - (b) **Raising the ethical bar through further strengthening the Code;**
 - (c) **Raising the ethical bar through increasing global adoption and effective implementation of the Code; and**
 - (d) **Proactively engaging and seeking cooperative avenues with key stakeholders.**
4. Each of the strategic themes is discussed below. In addition, the IESBA will continue to vigorously promote the fundamental principles and the conceptual framework which are the stable pillars underpinning the Code.
5. The IESBA intends its SWP to be dynamic. New developments may call for a reconsideration of the strategic themes or related actions and priorities to ensure that the IESBA's work is relevant and responsive to the public interest. Accordingly, the IESBA is committed to actively monitoring emerging developments that may require adjustments to its SWP.

Maintaining a Global Code that is Relevant and Fit for Purpose

6. Digital technologies have been rapidly transforming the landscape and ways in which companies and organizations operate. Big data and data analytics, emergent artificial intelligence, robotics, blockchain, cloud computing, mobile computing, social networks and new digital payment platforms, among others,

are becoming more mainstream. They also are highly interconnected. Such technologies enable companies and organizations to achieve economies of scale, competitive advantage through innovation and reinvention, global reach and faster time to market. These trends and developments are impacting the roles and responsibilities of PAs in a major way throughout the financial reporting supply chain. They create opportunities and challenges not only for accountancy firms (“firms”) and individual PAs in serving their clients or employing organizations, but also for the Code in remaining relevant as a foundation of public trust in the work of firms and individual PAs.

7. These trends and developments directly impact the Code in two overarching respects:
 - (a) The continuing robustness of the fundamental principles and the relevance and appropriateness of key concepts and terms in the Code; and
 - (b) The ethical implications of changing modes and patterns of business and work caused by technological disruptions and innovation.
8. The IESBA therefore intends to study the implications of these major trends and developments, and take any standard-setting action that may be appropriate to ensure that the Code remains relevant and fit for purpose. The desired outcome is for the Code to continue to provide a trusted ethical compass to firms and PAs as they upgrade their skills and adapt their services and activities in today’s technological age.
9. The IESBA itself will also consider how best to leverage developments in digital technology to achieve wider reach and easier use and access for the Code. In this regard, the IESBA envisions an e-Code with enhanced functionality that will provide ready access and guidance to firms and PAs in addressing the ethical questions or challenges they may face.
10. More broadly, the IESBA will also continue to examine the ethical implications of any regulatory developments internationally and any major shifts in public expectations or trends in areas of economic activity that rely on the services of PAs.

Raising the Ethical Bar through Further Strengthening the Code

11. Setting high-quality ethics standards for both PAs in public practice (including auditors) (PAPPs) and PAs in business (PAIBs) is the essence of the IESBA’s role in the public interest. The IESBA believes that the recent revision and restructuring of the Code have indeed significantly strengthened the Code.
12. However, the IESBA is also cognizant that new questions or issues may arise in the fluid, dynamic external environment that might reveal potential gaps in the Code or areas in need of further strengthening. Already, in response to stakeholder feedback and input from the PIOB, the IESBA has launched initiatives to study whether there is a public interest need to further develop or strengthen the Code to address the topics of (i) professional skepticism, (ii) the provision of non-assurance services to audit clients, and (iii) fees charged by audit firms (see Appendix 1 for further details).
13. In addition, in the context of auditor independence, the IESBA believes now is the time to review the adequacy of the definition of a public interest entity (PIE) in the Code given regulatory developments in this area in some major jurisdictions as well as calls from some regulatory stakeholders regarding whether the extant definition continues to be fit for purpose. Equally, developments in capital markets around the world and how they are regulated have raised questions about the clarity of the definition of a listed entity in the Code.

14. Questions have also been raised by some within the regulatory community regarding whether the concept of materiality in the Code is sufficiently clear as it applies to areas such as business relationships and financial interests.
15. Further, as societal expectations evolve, there have been public concerns about perceptions of some entities employing “aggressive tax avoidance” strategies, and whether such strategies are ethically justifiable. The questions that have been raised have implications for both PAPPs and PAIBs in relation to the advice or support they provide to their clients or employing organizations in the area of tax planning and related services.
16. These are specific areas that the IESBA will seek to study to determine whether standard-setting or other action is warranted to further raise the ethical bar and maintain a robust the Code.

Raising the Ethical Bar through Increasing Global Adoption and Effective Implementation of the Code

17. Globally recognized and accepted ethics standards serve the public interest because they establish a universal baseline for PAs around the world regarding the ethical conduct expected of them vis-à-vis their clients and employing organizations. Further, global independence standards provide for a consistent understanding among investors, public authorities and others as to what it means for an auditor to be independent, thereby leading to increased public trust in auditors’ reports.
18. To date, the Code has been adopted or is used as a basis for national ethics standards or the ethical codes of professional accountancy organizations in over 120 jurisdictions around the world, including 16 among the G-20. In addition, the 27 largest networks of firms around the world that comprise the [Forum of Firms](#) have aligned their policies and methodologies to conform to the Code for transnational audits. These statistics are a strong endorsement for the Code and its principles-based approach. However, with the finalization of the restructuring and substantive revision of the Code at the end of 2017, the IESBA sees a clear imperative to raise the ethical bar by vigorously promoting global adoption of the restructured Code.
19. In this regard, the IESBA will prioritize major outreach and communication activities to raise awareness of the restructured Code and the substantive improvements it contains.¹ The IESBA is aware that many jurisdictions have been progressing towards adoption at different speeds for a number of reasons. These include not only issues of capacity and fragmented responsibilities for ethics standards at the national level, but also clear concerns among stakeholders regarding the understandability, translatability, ease of use and enforceability of the extant Code. The IESBA believes that the restructured Code responds comprehensively to these concerns. Accordingly, it is in the public interest that jurisdictions adopt the restructured Code at the earliest opportunity.
20. To this end, the IESBA will pursue close engagement with the IFAC [Compliance Advisory Panel](#) regarding adoption of the restructured Code by IFAC member organizations. The IESBA will also seek endorsement of the restructured Code by national and international regulatory organizations.
21. In addition, the IESBA will dedicate efforts to facilitate effective implementation of the restructured Code, recognizing that it contains major improvements in areas such as non-compliance with laws and

¹ For details about when the restructured Code (including substantive improvements) becomes effective, see <http://www.ethicsboard.org/restructured-code>.

regulations (NOCLAR), the conceptual framework and safeguards, long association, inducements and pressure to breach the fundamental principles.

22. While the IESBA believes that it will have substantively addressed stakeholders' concerns about the clarity and enforceability of the Code through the restructuring project, it will monitor the effective implementation of the restructured Code. It will be important for the IESBA to hear about any implementation challenges in this regard. The IESBA also envisions a post-implementation review towards the latter part of the strategy period to determine whether the objectives of the restructuring project have been met.

Proactively Engaging and Seeking Cooperative Avenues with Key Stakeholders

23. The development of high-quality ethics standards benefits immensely from the input of the IESBA's wide range of stakeholders globally. To ensure that the Code continues to be, and be seen to be, a world class Code for the accountancy profession globally, the IESBA will proactively engage with its key stakeholders and seek cooperative avenues with them.
24. A major axis of cooperation will be with the International Auditing and Assurance Standards Board (IAASB). The IESBA and IAASB have agreed to a set of principles and related criteria [\[link to be added\]](#) to guide their interactions on matters of common interest going forward. The two boards have also begun a practice of meeting together annually to discuss matters of mutual relevance, in addition to more regular interactions at the staff, task force or working group, and leadership levels. This enhanced level of strategic and technical coordination is necessary because of the increasing extent to which the standards of both boards need to be coordinated on common or overlapping topics or areas, and because many jurisdictions adopt both boards' standards. To a lesser degree but equally important, the IESBA will seek cooperation avenues with the International Accounting Education Standards Board (IAESB).
25. The IESBA will also continue to prioritize close engagement with its National Standard Setters (NSS) liaison group² and seek opportunities for cooperation or collaboration on topics or initiatives of mutual interest. More broadly, the IESBA will pursue proactive engagement and closer working relationships with other key stakeholder groups, including regulators and audit oversight bodies, investors and those charged with governance, firms and IFAC member bodies.
26. Recognizing that PAIBs represent a large proportion of the profession in many jurisdictions, the IESBA will dedicate a specific focus on engaging closely with the IFAC PAIB Committee as a global representative group for this important constituency. At the same time, the IESBA believes that it is important to take into account the particular perspectives of the small and medium practice (SMP)/small- and medium-sized entity (SME) constituency when it sets standards. It therefore envisions continued close liaison with the IFAC SMP Committee, recognizing the need to balance the burden of change to the Code and the likely benefit to the public interest.
27. The IESBA also recognizes the importance of evidence-based standard setting, i.e., basing standard-setting activities on appropriate research and evidence of issues to be addressed. The academic and audit oversight communities can play valuable roles in this regard through their research and audit inspection activities, respectively. Such activities may yield empirical evidence as input to the IESBA's consideration of future standard-setting initiatives. Already, the IESBA has benefited from [input](#) from an

² The IESBA-NSS liaison group comprises NSS from Australia, Brazil, Canada, China (mainland), France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Russian Federation, South Africa, UK and USA.

academic in connection with fact finding regarding its Fees initiative, and engaged in discussions with the audit oversight community regarding how best to leverage its inspection work. The IESBA anticipates further strengthening its relationship with both stakeholder groups in the medium term.

II. Key Considerations Guiding the Establishment of the Work Plan

Criteria for Determining Actions and Priorities

28. The IESBA's determination of standard-setting or other actions to add to its Work Plan 2019-2023 and their priorities under the four strategic themes described above depends on a number of criteria. These include:
- The benefits to the public interest of undertaking the particular action, including the extent to which the action will:
 - Further enhance public trust in the Code and the global accountancy profession.
 - Further raise the ethical bar by supporting public interest outcomes, including compliance with the fundamental principles, strengthened auditor independence, increased global adoption and more effective implementation of the Code.
 - The pervasiveness of the matter in terms of the extent to which it impacts the global profession.
 - The degree of urgency in addressing it, and the potential implications for the public interest if action is not taken or is delayed.
 - The global relevance of the particular matter.
 - The feasibility of undertaking the action within a realistic timeframe.

Factors that Affect Timelines within the Work Plan

29. Various factors affect the timelines of new actions within the work plan, including:
- The nature and complexity of the particular matter being addressed.
 - Whether prior fact finding or consultation with stakeholders is needed to establish a basis for standard setting.
 - Board and agenda capacity (see Managing Delivery of SWP 2019-2023 below).
 - The need for coordination with other standard-setting boards, in particular the IAASB and IAESB.
30. The need to adhere to due process is a factor that influences the duration of projects. Projects may take from 12-36 months to complete, depending on their nature and complexity, and the need for research and stakeholder consultation prior to issuance of an exposure draft.

Questions

1. Do you agree with the four strategic themes in support of this vision for the period 2019-2023? If not, please explain why.
2. Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

III. Managing Delivery of the Strategy and Work Plan 2019-2023

31. The proposed SWP is ambitious, and draws on the full capacity of the IESBA to deliver high-quality standards in a timely manner. The IESBA's current capacity includes:
- A remunerated independent Chair and seventeen volunteer members, with each volunteer member committing approximately 325 – 570 hours annually (excluding travel) to his or her work on the Board. Most Board members in turn are supported by technical advisors.
 - An experienced full-time technical team of seven staff and administrative team of two staff, with administrative structures and processes supported by IFAC.
 - An annual operating budget that supports staffing, meeting, travel and other direct costs necessary for the IESBA to execute its strategy and carry out its work plan.
32. Managing delivery of the SWP within resources and with due consideration of the external context in which the IESBA operates is a priority of IESBA leadership. Key focus areas include:
- The independence of the IESBA and the strength of its reputation, and global acceptance of the Code—managed through:
 - A close and proactive dialogue with the PIOB and the IESBA CAG, including responsiveness to their advice, observations and recommendations, and a steadfast commitment to developing high-quality standards in the public interest;
 - Fully transparent standard-setting activities, adherence to due process including broad public consultation on all proposed standards, and a focus on responsiveness to public feedback;
 - Ongoing commitment to ensuring both the quality and timeliness of delivery of new standards. This includes developing high-quality principles-based standards that are globally operable; and
 - A robust and broad-based stakeholder outreach program, to understand stakeholder interests and needs.
 - Capacity at the leadership, volunteer and staff levels—managed through:
 - Optimizing Board plenary time, focusing debates on strategic issues while also addressing technical matters, and continuous improvement of effective and issues-focused material;
 - Use of task forces and working groups and, where appropriate, expert advisory groups to aid in standards development work;
 - Appointment through the independent nominations process of a diverse mix of Board members, with the requisite skills, experience, resources and capacity to contribute to the projects on the work plan;
 - Attracting, developing and retaining diverse, knowledgeable and highly qualified staff;
 - Reconsidering capacity and skills needed in the light of strategic priorities; and
 - Collaborating with national and other international standard-setting boards and leveraging their work and resources, including staff support when possible.

- Operational effectiveness and stability—managed through:
 - Leveraging technological tools and resources to enhance efficiency and effectiveness at the staff level; and
 - Using Board, Staff and other resources in a focused and effective manner.
- Robust outreach and communication with stakeholders—managed through:
 - An extensive Chair, member and staff outreach program;
 - Fora such as the IESBA CAG and IESBA-NSS meetings and, where appropriate, global roundtables to discuss developments or issues of international relevance; and
 - Proactive coordination with other international standard setters, particularly the IAASB and IAESB.
 - Development and release of supporting communication material such as podcasts, video Q&As, fact sheets, At-a-Glance documents, and Q&A publications.

33. The IESBA will continue to monitor external developments and evaluate how changes may impact its approach to delivery of its SWP. This includes monitoring the growth of demands on the Board as adoption of the Code increases further.

IV. Proposed Actions, Priorities and Timing

34. This section provides an overview of proposed actions and related priorities and timing that the IESBA believes would best serve to fulfill its vision for the Code in the period 2019-2023, guided by the four strategic themes identified above, and taking into account the survey feedback received from stakeholders. Prerequisites to the IESBA starting a standard-setting project include appropriate research into the issues, a proper needs analysis, and consideration of a formal project proposal.

Pre-commitments

35. Arising from recently completed projects, or pursuant to matters raised by the PIOB, the IESBA has a number of pre-commitments related to standard setting or the Code more broadly that will likely continue beyond 2018 or start in the new strategy period. These include the following:

Topic	Scope
<i>Professional skepticism</i> – An initiative to explore the behavioral characteristics inherent in professional skepticism, whether those behavioral characteristics should be exercised by all PAs, and whether the Code should be further developed as a result.	Whole Code (PAPPs and PAIBs)
<i>Non-assurance services</i> (NAS) – A review of the independence provisions in the Code applicable to the provision of NAS to audit and assurance clients from a broad permissibility perspective.	International Independence Standards (IIS)

Topic	Scope
<i>Fee-related matters</i> – An initiative to explore fee-related matters raised by the regulatory community to determine whether there is a need for further enhancements to the Code or the commissioning of staff guidance.	Part 3 of the restructured Code applicable to PAPPs, and IIS
<i>NOCLAR post-implementation review</i> – A review of how effectively the implementation of the Code's NOCLAR provisions around the world is meeting the objectives of the project.	Whole Code (PAPPs and PAIBs)
<i>Long association post-implementation review</i> – A review of how effectively the revised long association provisions in the Code are being implemented in practice.	IIS
<i>Consistency of Part 4B of the restructured Code (formerly extant Section 291³) with ISAE 3000 (Revised)⁴</i> – A review of Part 4B for any changes needed to make the provisions in that section consistent with the revised assurance terms and concepts in ISAE 3000 (Revised).	IIS
<i>E-Code</i> – An initiative to develop enhanced electronic features and tools to increase the accessibility and ease of use of the Code, leveraging appropriate digital platforms.	Whole Code (PAPPs and PAIBs)

36. Further details regarding these pre-commitments are set out in Appendix 1. These pre-commitments fit under the relevant strategic themes as further described below.

New Items

37. Based on respondents' feedback to its strategy survey as well as discussions with stakeholders and its own deliberations, and having regard to its vision for the Code, the IESBA has identified the following new items as priorities for the strategy period 2019-2023:

Topic	Scope
<i>Clear Strategic Priorities</i>	
Trends and developments in technology	Whole Code (PAPPs and PAIBs)

³ Extant Section 291, *Independence – Other Assurance Engagements*

⁴ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

Topic	Scope
Emerging or newer models of service delivery	Part 3 applicable to PAPPs, and IIS
Tax planning and related services	Whole Code (PAPPs and PAIBs)
Other Priorities	
Definitions of public interest entity and listed entity	IIS
Materiality	IIS
Post-implementation review of the restructured Code	Whole Code (PAPPs and PAIBs)
Communication with those charged with governance	Part 3 applicable to PAPPs, and IIS
Documentation	Whole Code (PAPPs and PAIBs)

38. The following subsection elaborates on them as well as the pre-commitments and other actions of a more general or ongoing nature, linking them to the four strategic themes.

Proposed Actions for 2019-2023, and Priorities and Timing

Strategic Theme: Maintaining a Global Code that is Relevant and Fit for Purpose

Trends and Developments in Technology

39. Major trends and developments in technology such as data analytics, emergent artificial intelligence, robotics, blockchain, cloud computing, mobile computing and social networks are rapidly transforming businesses and economies and the future of work. The global accountancy profession and stakeholders at large are recognizing the pressing need to understand and address the implications of these trends and developments. Within the context of the profession, these transformations have already begun to cause disruptions in the business models of firms, including how they deliver professional services and how they charge for such services as well as how individual PAs perform their work. For example, data analytics is impacting how firms perform audit engagements, and blockchain is prompting organizations to reconsider how they approach transaction reconciliations which have traditionally been a significant accounting task. At the same time, cyber-security has become a strategic issue for businesses large and small, and a number of major jurisdictions in recent years have moved to introduce legislation or regulation regarding cyber-security to protect the personal information of individuals.
40. Given the need for a timely response, the IESBA has already established a working group in Q1 2018 to begin gathering an understanding of the transformative effects of these technological trends and

developments on the assurance, accounting and finance functions, and explore their ethical implications. Examples of questions that may need to be explored include the following:

- Would new ethics standards be needed to address emergent patterns of social behavior caused by technological disruptions within the various contexts in which PAs work?
- Would there be a need to reconsider the concept of independence of mind and the fundamental principles of integrity, objectivity and professional behavior when reliance is placed on machine anticipation, synthesis and deduction (for example, in the context of assessing audit evidence, providing strategic, financial or operational advice to clients, or preparing or presenting information)?
- Are there any ethical issues from developments in information and communication technologies, for example, with respect to compliance with data privacy or intellectual property laws and regulations, or in terms of compliance with the fundamental principle of confidentiality?
- Are there any ethical implications from newer types of services such as cyber-security advisory services or data analytics that firms may provide to clients?
- Are there any ethical implications with respect to ownership of data when the information is stored in the “cloud” or processed and transmitted by third party service providers located in different parts of the world?

41. Because of the breadth of the topic, the IESBA plans initially to take a diagnostic approach. Based on its working group’s findings and recommendations, the IESBA will determine the areas of highest priority, the scope of the related issues and how best to address them. As an understanding of the developments in technology may require specialist input and advice, the IESBA will consider the merit of establishing specific expert advisory panels. Depending on the nature of the issues, there may be more than one work stream that flows from this initiative, and they may be interrelated (see also subsection “Emerging or Newer Models of Service Delivery” below). Some of the issues might also have pervasive implications across the Code, particularly if they relate to fundamental principles or concepts in the Code.
42. The IESBA also plans to seek avenues of coordination with the IAASB and IAESB with respect to issues in this area that overlap the remits of the boards. In this regard, the IESBA notes that the IAASB has already established a working group on the topic of data analytics.
43. The IESBA anticipates receiving a preliminary report from its working group by Q2 2019, and a final report and recommendations by Q3 2019.

Emerging or Newer Models of Service Delivery

44. The IESBA will establish a working group to explore the ethical implications of emerging or newer models of service delivery such as managed services that firms may provide or outsourced services that firms may use, and the related ethical implications for any PAIBs who are involved in decisions about such services. Some of the changes are being influenced by rapid developments in technology and changing views on the future of work, for example, the use of so-called “contingent workers”⁵ in providing services

⁵ Contingent workers are generally freelancers, independent contractors, consultants, or other outsourced and non-permanent workers who are hired on a per-project basis. They can work on site or remotely.

to clients. The questions that arise might concern all five of the fundamental principles in the Code as well as independence, for example:

- While the Code prohibits firms from assuming management responsibility when providing NAS to audit clients, are there any particular threats to independence when firms enter into contracts to manage entire operating functions of client entities, such as company secretarial or corporate taxation?
- Are there any ethical implications such as threats to objectivity and conflict of interest issues at a staff level when firms absorb entire staff teams on their payroll from their clients as a result of entering into a contract for a managed service, for example, managing the corporate taxation function of a multi-national client?
- Are there any implications with respect to compliance with the fundamental principles when entities outsource parts or aspects of their accounting or finance functions to third party service providers located in or outside their jurisdictions?
- Are there any implications with respect to compliance with the fundamental principles and/or independence when firms rely on shared service centers based in or outside their jurisdictions for the performance of selected parts or aspects of professional services?
- What do the concepts of “office” and “engagement team” in the Code mean from an independence perspective when the organizational model and ways of working (e.g. flexible workforce, contingent workers) are changing and the concept of a physical office gradually becomes less relevant?

45. As a first step, the IESBA will seek to obtain a detailed understanding of firms’ evolving service delivery models. Given that this work stream is closely related to that addressing trends and developments in technology, the IESBA will explore whether its working group on technology might cover some of the fact finding work on this topic. In addition, the IESBA anticipates some need for coordination with the IAASB given that some of the matters relating to outsourcing are being addressed within the IAASB’s current Quality Control project.

46. The IESBA anticipates establishing the working group in Q1 2019, with fact finding work beginning soon after.

Emerging Issues Initiative

47. The IESBA plans to continue to monitor relevant external developments through its Emerging Issues and Outreach Committee (EIOC) with a view to determining whether there is a need for any changes to the Code or other actions. The IESBA has established the EIOC to advise it on (a) any emerging issues that may warrant attention outside of the normal strategic planning process, and (2) the scope and focus of, and approach to, outreach to stakeholders.

48. The IESBA anticipates semi-annual discussions on the relevant matters flowing from this initiative throughout the strategy period.

Pre-commitment

49. The IESBA will prioritize further development of the e-Code, leveraging the platform of the restructured Code. The IESBA envisions the e-Code to be a primary tool of reference for firms, individual PAs, IFAC member bodies and other stakeholders in the medium to longer term. This initiative will explore how best

to leverage newer technologies, including mobile access, to make the content of the Code as widely accessible and as easy to use as possible. In addition to providing an enhanced search facility, the IESBA anticipates the e-Code to contain links to bases for conclusions, staff publications and other relevant material outside the Code that provide contextual information or explain the rationale for particular provisions in the Code.

50. The IESBA has established a working group in Q1 2018 to lead this initiative. The focus of the first phase of this work stream, beginning in Q1 2018, will be on building enhanced search functionality into the e-Code. This phase is targeted for completion by the end of Q4 2019, in close proximity to when the restructured Code becomes effective. The second phase of this initiative, expected to start in Q1 2020, will focus on developing additional functionality for the e-Code. The working group will advise the IESBA on the scope, deliverables and timeline for this second phase in due course. Additional phases will be subject to IESBA discussion and the progress achieved and experience gained from the first two phases.

Strategic Theme: Raising the Ethical Bar through Further Strengthening the Code

Tax Planning and Related Services

51. In recent years, much public attention has focused on the topic of aggressive tax avoidance notwithstanding the legality of the tax mitigation schemes or related transactions to achieve desired tax outcomes. Questions have in particular been raised regarding the ethical implications for professional behavior when PAIBs are involved in developing tax minimization strategies that are perceived as “aggressive,” or when firms provide advice to their clients on such strategies. The issue is of such major public interest significance that it has been discussed on the G-20 agenda.
52. The IESBA will therefore seek to understand developments in tax planning by companies and related professional services, and explore the associated ethical questions to which they give rise to determine the nature and extent of any response.
53. The issues involved are complex, especially given the variety of legal frameworks around the world, and therefore may only be capable of being addressed at a principles level. Nevertheless, the IESBA will seek to explore a path where it can intervene within its remit as a global ethics standard setter. As a first step, the IESBA might consider issuing a discussion paper or a thought piece to stimulate discussion on the topic among stakeholders from the perspective of PAs’ overarching obligation to comply with the fundamental principles. The IESBA plans to start this new work stream in Q2 2019.

Definitions of Public Interest Entity and Listed Entity

54. The Code defines a PIE as either a listed entity or an entity (a) defined by regulation or legislation as a PIE or (b) for which the audit is required by regulation (which may be promulgated by any relevant regulator, including an audit regulator) or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Some regulatory stakeholders such as the International Association of Insurance Supervisors (IAIS) and the Basel Committee on Banking Supervision have suggested that the definition of a PIE be re-examined from the perspective of financial institutions, including banks. Other regulatory stakeholders such as the International Organization of Securities Commission (IOSCO) have noted that many jurisdictions do not appear to have the capacity to tailor the definition to their specific national circumstances. Other stakeholders, particularly the small and medium practices (SMP) community, have expressed concern that the independence requirements in the Code

are increasingly disproportionate in those circumstances where audit and review services are provided to small entities that fall within the PIE definition.

55. Separately, the Code also defines a “listed entity” as 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. Some stakeholders have questioned the meaning of the term “recognized stock exchange” in this definition, for example, whether it is intended to be the same as, or broader than, the concept of a “regulated market” in the definition of PIEs in the EU audit legislation. It was noted that some might perceive a difference as in practice exchanges exist that are informal and outside of the scope of regulation. In addition, there might be a need to reconsider the definition given broader developments in capital markets in various jurisdictions and newer forms of capital raising, such as crowd funding.
56. The IESBA will therefore explore whether the definitions of these two terms should be revised and the implications of any changes on how the Code addresses PIEs and listed entities, for example, in relation to prohibitions. The IESBA plans to start this new work stream in Q2 2021.

Materiality

57. Materiality is a concept that applies across the Code. While the IESBA has developed new application material pursuant to its Safeguards project to explain materiality in relation to provisions addressing NAS delivered to audit clients, the Code refers to materiality in other areas, for example, in relation to other independence matters. For instance, Section 510 of the restructured Code addressing financial interests states that “for the purposes of 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.”
58. During its previous strategy consultation, a regulatory stakeholder had also suggested that the IESBA provide guidance on how to evaluate materiality in the context of considering breaches of the Code.
59. The IESBA will therefore consider whether greater clarity is needed regarding how the concept of materiality should be applied across the Code, and not just in relation to NAS. Such an initiative will consider standards or other publications issued by the IAASB and the International Accounting Standards Board (IASB) regarding qualitative approaches they might have developed on the topic of materiality. The initiative might also involve IESBA coordination with these other boards as it advances its thinking.
60. The IESBA anticipates considering a project proposal in Q1 2021.
61. Separately, as part of its NAS pre-commitment, the IESBA will consider whether materiality should be a consideration in addressing the question of whether the Code should permit firms to provide NAS to audit clients.

Pre-commitments

62. The IESBA will prioritize initiatives on its list of pre-commitments that are expected to continue into or begin in the new strategy period. These include:
 - Professional skepticism, with a project proposal anticipated in Q4 2018.
 - NAS, with fact finding work commencing Q1 2018 and a project proposal in Q4 2018.
 - Fee-related matters, for which fact finding commenced in Q1 2016.

- Part 4B consistency with ISAE 3000 (Revised), commencing in Q3 2018.

63. The IESBA anticipates receiving a final report and recommendations from its Fees Working Group by Q2 2018, at which time it will determine the nature and extent of any further action that may be needed in relation to the topic of Fees. Some of the issues pertaining to fees and NAS may be interrelated.

General Maintenance of the Code

64. The IESBA plans to set aside some capacity throughout the strategy period to address matters that may fall under the umbrella of general maintenance of the Code. Examples of such matters include limited scope clarifications within certain application material (the need for which may be identified as part of current or recently completed projects, or otherwise flagged by stakeholders), and use of consistent terminology and definitions vis-à-vis IAASB standards. Given the limited scope nature of these types of changes to the Code, the IESBA envisions that identified changes could be packaged together and released at the same time. Further, given the nature of such changes, the IESBA will, where warranted, accelerate steps in due process.

Other Matters

65. Subject to agenda capacity and resources, the IESBA plans to also consider towards the end of the strategy period whether changes to the Code are needed in the following two areas:

- *Communication with those charged with governance (TCWG)*

The Code currently requires auditors to communicate with TCWG in relatively few and specific circumstances, for example:

- When a breach of an independence provision occurs.
- When an audit client is a PIE and for two consecutive years the total fees from the client and its related entities represent more than 15% of the total fees of the firm.

The Code also encourages regular communication between the firm and TCWG regarding relationships and other matters that might reasonably bear on independence.

This initiative will seek to strengthen the provisions in the Code addressing communication with TCWG. This could in particular increase transparency around firms' identification and evaluation of threats to compliance with the fundamental principles and independence requirements, and the actions or measures taken to eliminate or reduce those threats to an acceptable level. Doing so could also clarify that auditor independence is a joint responsibility, and respond to regulatory stakeholders who have expressed views that a party other than the auditor itself should consider the auditor's independence. Such a review would include consideration of whether to require specific matters to be covered in the communication. (The issue of whether firms should seek pre-approval from TCWG in providing NAS to audit clients will be considered under the NAS pre-commitment.)

- *Documentation*

The Code's documentation provisions are located in various areas addressing particular topics. During its recently completed Safeguards project, the IESBA considered whether the Code includes sufficient and appropriate documentation provisions related to safeguards. As a result of this discussion, the IESBA identified a need to reconsider the nature, extent and location of material

relating to documentation in the Code holistically. In addition, this initiative will consider various suggestions from respondents during recently completed projects or the IESBA's previous strategy consultation, including:

- Whether the application material that encourages documentation with respect to ethical conflict resolution should be elevated to a requirement.
- Whether the Code should require independence documentation to be of a standard that would enable another professional to understand the judgments made, and the reasoning supporting those judgments.
- Whether the requirement with respect to documentation of threats to independence that necessitate significant analysis should be extended to any threats to independence requiring analysis.

In addition, this initiative will consider a question that arose during the MG Rover case in the UK in the past few years regarding whether PAIBs should be subject to a documentation requirement in certain circumstances. The Code currently only encourages documentation for PAIBs.

Strategic Theme: Raising the Ethical Bar through Increasing Global Adoption and Effective Implementation of the Code

Post-Implementation Review of the Restructured Code

66. In restructuring the Code, the IESBA has aimed to enhance its understandability and usability, thereby facilitating its adoption, effective implementation, consistent application, and enforcement. The project, which was completed in December 2017, has involved extensive restructuring and redrafting of the Code.
67. Given the important objectives of the project, the IESBA will undertake a post-implementation review of the restructured Code with a view to assessing whether its implementation around the world is effectively meeting those objectives. This post-implementation review will focus only on broader issues of usability and application, and not on the substantive changes to various sections that are now included in the restructured Code.
68. The IESBA plans for this initiative to commence in Q2 2023 to allow sufficient time for the restructured Code to bed down and for jurisdictions and firms of all sizes to gather sufficient experience in implementing it. The IESBA anticipates that the output from this initiative will feed into the development of the SWP for the subsequent strategy period.

Pre-commitments

69. The IESBA will undertake the following post-implementation reviews in the new strategy period:
 - NOCLAR, commencing Q1 2022.
 - Long association, commencing Q1 2022.

Promoting Global Adoption of the Restructured Code

70. With the issuance of the restructured Code in [April 2018], the IESBA will pursue vigorous outreach efforts to raise awareness of the significant improvements to the Code and promote its global adoption. In this

regard, the IESBA has established a working group in Q1 2018 to develop rollout initiatives to support adoption and implementation of the restructured Code as well as a strategy for outreach and communication [\[Link to resources on website\]](#). The IESBA anticipates these activities to continue well into the new strategy period given its expectation that adoption will follow a gradual path as jurisdictions follow their national due processes.

Monitoring and Documenting the Extent of Adoption of the Code

71. In collaboration with the IFAC Compliance Advisory Panel, the IESBA plans to regularly update information regarding the extent of global adoption of the Code. The IESBA also plans to work closely with the Compliance Advisory Panel to explore whether IFAC member bodies could be encouraged to benchmark their national ethics standards against the Code, specifically with a view to identifying any national requirements that are more or less stringent than the Code and understanding why. This activity will be of an ongoing nature.

Other Activities

72. In support of adoption and implementation, the IESBA will also undertake various other activities throughout the strategy period, including the following:
- Developing and executing a robust communication strategy.
 - Pursuing a proactive stakeholder outreach agenda, including understanding stakeholder experiences regarding adoption and implementation of the restructured Code.
 - Commissioning the development of appropriate staff publications in support of adoption and implementation.

Strategic Theme: Proactively Engaging and Seeking Cooperative Avenues with Key Stakeholders

Coordination with the IAASB and IAESB

73. As a pervasive aspect of its strategy, the IESBA will prioritize close coordination with the IAASB. This will be highly important because ethics and independence are important factors to audit quality. To this end, staff of the two boards are maintaining an inventory of topics or areas requiring or potentially requiring coordination. In addition, the two boards have each appointed a member to act as liaison to the other board. Further information about coordination between the two boards, including updates on coordination efforts in progress, can be accessed on the IESBA's website [\[insert link\]](#).
74. The IESBA will also pursue coordination with the IAESB on topics where there is a clear overlap with respect to the remits of both boards. Such coordination is already in process with respect to the pre-commitment relating to professional skepticism.

Other Actions

75. The IESBA also plans to undertake the following actions throughout the strategy period:
- It will seek to extend and deepen engagement and cooperation with key stakeholders, including NSS, regulators and audit oversight bodies, and firms.

- It will speak out on ethics-related developments that have the potential to lead to greater divergence in standards, and seek to influence debates towards greater international convergence
 - It will engage proactively with the Forum of Firms, the IFAC SMP Committee, the IFAC PAIB Committee and other relevant committees of IFAC in seeking their inputs and perspectives on relevant projects, work streams or initiatives.
76. The IESBA also plans to proactively engage with the academic community, recognizing the contributions that this community can make through its research or other work in informing the IESBA's standard-setting activities.

Summary of Projects, Work Streams and Activities, and Work Plan 2019–2023

77. Appendix 2 summarizes the projects, work streams and activities the IESBA plans to undertake during the strategy period and, where appropriate, when each project, work stream or activity is expected to commence and when it is expected to be completed.
78. Appendix 3 presents the anticipated work plan for 2018. Appendix 4 sets out an illustrative work plan for the period 2019-2023. Appendix 5 provides an overall summary covering the new strategy period.

Questions

3. Do you support the actions that have been identified with respect to each strategic theme, and their relative prioritizations? If not, please explain why?
4. Are there any actions not included in the proposed SWP that you believe the IESBA should consider for the period 2019-2023? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated)?
5. Do you have comments on any other matters addressed in this consultation paper?

Appendix 1

Pre-Existing Commitments

Commitment	Description
<i>Commitments Arising from Decisions on Recently Finalized Standards and PIOB Input</i>	
1. NAS	<p>In January 2015, the IESBA completed a project to revise certain independence provisions in the Code pertaining to the provision of NAS to audit and assurance clients. The main changes included:</p> <ul style="list-style-type: none"> • The removal of provisions that permitted a firm to provide certain bookkeeping and taxation services to PIE audit clients in emergency situations. • New and clarified guidance regarding what constitutes management responsibility. • Clarified guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs. <p>The Basis for Conclusions includes background to the project.</p> <p>At the time the IESBA undertook the project, the IESBA had concluded, based on a benchmarking exercise focused on G-20 countries and a select number of other jurisdictions in early 2013, that there was no evidence that the Code’s NAS provisions were at significant variance from those of most or all of these jurisdictions. In approving the changes to the Code from this project in March 2015, however, the PIOB called on the IESBA to revisit issues on auditor independence from a broader perspective, including prohibited NAS and the role of those charged with governance in approving NAS.</p> <p>Preliminary work on this initiative will include a review of updated benchmarking data as well as the results of the fact finding work on the Fees initiative (see below) to determine the scope of any potential project on this topic.</p>

Commitment	Description
2. Fee-related matters	<p>This is a commitment in the IESBA's current strategy and work plan. The IESBA has begun to explore fee-related matters raised by the regulatory community to determine whether there is a need for further enhancements to the Code or the commissioning of staff guidance.</p> <p>Fact finding work commenced in 2016 in response to PIOB input and is aimed at identifying whether there are trends or other factors that indicate a relationship between fees and threats to auditor independence and compliance with the fundamental principles, or whether there are reasonable perceptions that such threats exist, and how they might be addressed. The fact finding is focusing in particular, on whether such relationships exist in the following areas:</p> <ul style="list-style-type: none"> • Level of audit fees for individual audit engagements. • Relative size of fees to the partner, office or the firm, and the extent to which partner(s) remuneration is dependent upon fees from a particular client. • The ratio of non-audit services fees to audit fees paid by an audit client. • The provision of audit services by a firm that also has a significant non-audit services business. <p>Pending the outcome of the fact-finding work, the IESBA has not yet determined whether it should launch a standard-setting project or undertake any other initiative on this topic. The IESBA most recently discussed the topic at its March 2017 meeting.</p>
3. NOCLAR post-implementation review	<p>In April 2016, the IESBA finalized the provisions in the Code addressing the topic of non-compliance with laws and regulations (NOCLAR). The new provisions come into effect July 15, 2017. In completing that project, the IESBA committed to undertake a post-implementation review to assess how effectively the implementation of the provisions around the world is meeting the objectives of the project.</p> <p>The IESBA has not yet considered the approach to, and timing of, the post-implementation review.</p>

Commitment	Description
4. Long association post-implementation review	<p>In December 2016, the IESBA finalized revisions to the provisions in the Code addressing the long association of firm personnel with an audit or assurance client. These provisions are currently being redrafted to align with the new structure and drafting conventions of the Code. The revised and restructured provisions are expected to be issued by Q1 2018.</p> <p>In completing the revisions project, the IESBA committed to review the new provisions to take account of, among other matters, relevant legislative and regulatory developments relating to long association (including mandatory firm rotation and mandatory retendering) as well as experience of the application of the new provisions in practice.</p> <p>The IESBA has not yet considered the approach to, and timing of, the post-implementation review.</p>
Active Projects or Initiatives, and Commitments in the Current Strategy and Work Plan	
5. Professional skepticism (PS)	<p>The IESBA is participating in a tripartite Working Group with the IAASB and the IAESB to explore appropriate standard-setting responses to calls from regulatory and other stakeholders to enhance auditors' application of PS.</p> <p>Separately, the IESBA has been exploring how best to respond to calls from the PIOB and certain stakeholders for enhancement to the application of PS among PAs more broadly in the Code. For example, some respondents to Phase 1 of the IESBA's Part C project have suggested that the Code should emphasize the need for PAIBs to exercise adequate PS throughout the process of preparing, presenting or filing information. Other stakeholders have argued that PAIBs should always maintain PS and that the concept should not be limited to auditors.</p> <p>In addition, in May 2017, the IESBA issued an Exposure Draft of proposed application material to (a) explain how the fundamental principles in the Code support the effective application of PS as defined in IAASB standards, and (b) emphasize the importance of PAs obtaining an understanding of the facts and circumstances known to them when exercising professional judgment in applying the conceptual framework in the Code. The IESBA finalized the proposed application material in December 2017.</p>

Commitment	Description
<i>New Commitments Arising from Discussions on Recently Completed Projects</i>	
6. Consistency of Part 4B of the restructured Code with ISAE 3000 (Revised).	This involves a review of Part 4B for any changes needed to make the provisions in that section consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). The need for this review has been identified during the restructuring of the Code but is outside the remit of the Structure of the Code project. To avoid delaying completion of that project, the IESBA agreed to defer the review until after completion of the restructuring of the Code.
7. Development of the e-Code	This involves leveraging the new structure of the Code and developments in technology to explore additional features and tools that could be developed to increase the accessibility and ease of use of the Code, leveraging appropriate digital platforms. An initial version of the e-Code with basic search functionality, hyperlinked sections and pop-up definitions of key terms is available on the IESBA website.

Appendix 2

Projects, Work Streams and Activities Under Identified Strategic Themes for 2019-2023

Project/Work Stream/Activity	Expected Start	Expected Completion ⁶
Maintaining a Global Code that is Relevant and Fit for Purpose		
<u>Pre-commitment</u> E-Code <ul style="list-style-type: none"> <i>Leverage the new structure of the Code and developments in technology to explore additional features and tools that could be developed to increase the accessibility and ease of use of the Code.</i> 	Phase 1 commenced Q1 2018 Phase 2 commencing Q1 2020	Phase 1: Q4 2019 Phase 2: Q2 2021
<u>New Work Streams</u> Trends and Developments in Technology <ul style="list-style-type: none"> <i>Gather an understanding of the transformative effects of trends and developments in technology on the assurance, accounting and finance functions, and explore their ethical implications.</i> 	Commencing Q2 2018]	Report on fact finding: Q3 2019 Nature and timing of subsequent deliverables subject to fact finding and IESBA discussions
Emerging or Newer Models of Service Delivery <ul style="list-style-type: none"> <i>Explore the ethical implications of emerging or newer models of service delivery such as managed services that firms may provide or outsourced services that firms may use, and the related ethical implications for any PAIBs who are involved in decisions about such services.</i> 	Commencing Q1 2019	Report on fact finding: Q4 2019 Nature and timing of subsequent deliverables subject to fact finding and IESBA discussions

⁶ The actual completion date may vary depending on the progress of the project or work stream and the need to follow due process.

Project/Work Stream/Activity	Expected Start	Expected Completion ⁶
<u>Ongoing Activity</u> Emerging issues <ul style="list-style-type: none"> Consider emerging issues brought forward by the EIOC and determine appropriate actions. 		Ongoing
Raising the Ethical Bar through Further Strengthening the Code		
<u>Pre-commitments</u> Professional Skepticism <ul style="list-style-type: none"> Explore how best to respond to calls from the PIOB and certain stakeholders for enhancement to the exercise of professional skepticism among all categories of PAs in the Code. 	Fact finding commenced Q2 2017 Project proposal Q4 2018	Q2 2021
NAS <ul style="list-style-type: none"> Review the independence provisions in the Code applicable to the provision of NAS to audit and assurance clients from a broad permissibility perspective. 	Fact finding commencing Q1 2018 Project proposal Q4 2018	Q3 2021
Fee-related Matters <ul style="list-style-type: none"> Explore fee-related matters raised by the regulatory community to determine whether there is a need for further enhancements to the Code or the commissioning of staff guidance. 	Fact finding commenced Q1 2016	Report and recommendations Q2 2018
Part 4B Consistency with ISAE 3000 (Revised) <ul style="list-style-type: none"> Review Part 4B of the restructured Code for any changes needed to make the provisions in that section consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). 	Project proposal Q3 2018	Q2 2020

Project/Work Stream/Activity	Expected Start	Expected Completion ⁶
<u>New Work Streams</u>		
Definitions of Public Interest Entity and Listed Entity <ul style="list-style-type: none">Explore whether the definitions of these two terms should be revised and the implications of any changes on how the Code addresses PIEs and listed entities.	Project proposal Q2 2021	Q1 2023
Materiality <ul style="list-style-type: none">Consider whether greater clarity is needed regarding how the concept of materiality should be applied across the Code.	Project proposal Q1 2021	Q2 2023
Tax Planning and Related Services <ul style="list-style-type: none">Obtain an understanding of developments in tax planning by companies and related professional services, and explore the associated ethical questions to which they give arise to determine the nature and extent of any response.	Fact finding commencing Q2 2019	Nature and timing of deliverables subject to fact finding and IESBA discussions
Communication with Those Charged with Governance <ul style="list-style-type: none">Review the provisions in the Code addressing communication with TCWG to determine how they can be strengthened.	Project proposal Q1 2023	2025
Documentation <ul style="list-style-type: none">Review the nature, extent and location of material relating to documentation in the Code to determine how they can be streamlined and, where appropriate, strengthened.	Project proposal Q3 2023	2026
General Maintenance of the Code <ul style="list-style-type: none">Address the need for limited scope changes to the Code of a general maintenance nature.	Ongoing	
Raising the Ethical Bar through Increasing Global Adoption and Effective Implementation of the Code		
<u>Pre-commitments</u>		
NOCLAR Post-implementation Review <ul style="list-style-type: none">Review how effectively the implementation of the NOCLAR provisions around the world is meeting the objectives of the project.	Fact finding commencing Q1 2022	Final report Q3 2023

Project/Work Stream/Activity	Expected Start	Expected Completion ⁶
<i>Long association post-implementation review</i> <ul style="list-style-type: none"><i>Review how effectively the revised long association provisions in the Code are being implemented in practice.</i>	Fact finding commencing Q1 2022	Final report Q2 2023
<u>New Work Stream</u> Post-Implementation Review of the Restructured Code <ul style="list-style-type: none"><i>Undertake a post-implementation review of the restructured Code with a view to assessing whether its implementation around the world is effectively meeting the objectives of the restructuring project.</i>	Fact finding commencing Q2 2023	Q4 2024
<u>Ongoing Activities</u> Promoting Global Adoption of the Restructured Code <ul style="list-style-type: none"><i>Undertake outreach efforts to raise awareness of the significant improvements in the restructured Code and promote its global adoption.</i>	Commencing Q2 2018]	Ongoing
Monitoring and Documenting the Extent of Adoption of the Code	Ongoing	
Developing and executing a robust communication strategy	Ongoing	
Pursuing a proactive stakeholder outreach agenda	Ongoing	
Commissioning the development of appropriate staff publications in support of adoption and implementation	Ongoing	
<i>Proactively engaging and seeking cooperative avenues with key stakeholders</i>		
<u>Coordination with Other Standard-setting Boards</u> Engage in close coordination with the IAASB and IAESB on topics or areas that overlap the remits of the two boards.	Ongoing (Capacity reserved for coordination work streams – see Appendix 4)	

Project/Work Stream/Activity	Expected Start	Expected Completion ⁶
<p><u>Ongoing Activities</u></p> <ul style="list-style-type: none"> • Seek to extend and deepen engagement and cooperation with key stakeholders, including NSS, regulators and audit oversight bodies, and firms. • Speak out on ethics-related developments that have the potential to lead to greater divergence in standards, and seek to influence debates towards greater international convergence. • Engage proactively with the Forum of Firms, the IFAC SMP Committee, the IFAC PAIB Committee and other relevant committees of IFAC in seeking their inputs and perspectives on relevant projects, work streams or initiatives. • Proactively engage with the academic community. 		Ongoing

Appendix 3

Anticipated IESBA Work Plan for 2018⁷

Work Stream	Mar 2018	Jun 2018	Sep 2018	Dec 2018
Structure and Safeguards	Discussion Roll-out initiatives	Discussion FAQs	Discussion FAQs	
Inducements	First read post-ED	Approve final		
Professional Skepticism	Draft CP	Approve CP		Full review CP responses and project proposal
Non-assurance Services	Discussion	Fact finding	Discussion	Report on fact finding and project proposal
Fee-related Issues	Update	Final report		
Part 4B Consistency with ISAE 3000			Project proposal	Issues
e-Code	Discussion Phase 1		Discussion	Update
Objectivity of EQCR		Issues	Issues	
Technology		Discussion	Update	Discussion
IAASB-IESBA Coordination			Discussion	
SWP 2019-2023	Approve CP		Full review CP responses	Approve SWP
EIOC		Discussion		Discussion

ED: Exposure draft; CP: Consultation paper

⁷ The actual work plan is subject to change, depending on the progress achieved on the IESBA's various projects and activities, and external developments. Activities of a regular and an ongoing nature such as stakeholder outreach are not shown. The work plan for the next four quarters is updated quarterly and can be accessed at: <https://www.ifac.org/sites/default/files/uploads/IESBA/IESBA-Project-Timetable.pdf>.

Appendix 4

Illustrative IESBA Work Plan 2019-2023⁸

2019

Work Stream	Mar 2019	Jun 2019	Sep 2019	Dec 2019
Professional Skepticism	Issues	Issues	First read	Second read
Non-assurance Services	Issues	Issues	Issues	First-read
Part 4B Consistency with ISAE 3000	First read	Approve ED		Full review
e-Code	Review prototype	Update	Discussion	Finalize Phase 1
Technology	Discussion	Preliminary report	Final report	Nature and timing of deliverables subject to fact finding
Service Delivery Models	Establish WG	Discussion	Discussion	Final report
Tax Planning		Establish WG	Discussion	Discussion
IAASB Coordination Topic 1	TBD	TBD	TBD	TBD
IAASB-IESBA Coordination			Discussion	
EIOC		Discussion		Discussion

TBD: To be determined; WG: Working group

⁸ This illustrative work plan is only intended to provide an indication of the possible timelines of various projects and initiatives based on considerations at the time this SWP is finalized. These timelines may change without prior notice depending on the progress of the individual projects or initiatives, and any reprioritizations of commitments that the IESBA may consider necessary should circumstances change.

2020

Work Stream	Mar 2020	Jun 2020	Sep 2020	Dec 2020
Professional Skepticism	Approve ED		Update	Full review
Non-assurance Services	Second read	Approve ED		Update
Part 4B Consistency with ISAE 3000	First read post-ED	Approve final		
e-Code	Discussion Phase 2	Update	Discussion	Review prototype
Technology	Nature and timing of deliverables subject to fact finding and IESBA discussions			
Service Delivery Models	Nature and timing of deliverables subject to fact finding and IESBA discussions			
Tax Planning	Nature and timing of deliverables subject to fact finding and IESBA discussions			
IAASB Coordination Topic 1	TBD	TBD	TBD	TBD
IAASB-IESBA Coordination			Discussion	
General Code Maintenance	TBD		TBD	
EIOC		Discussion		Discussion

2021

Work Stream	Mar 2021	Jun 2021	Sep 2021	Dec 2021
Professional Skepticism	First read post ED	Approve final		
Non-assurance Services	Full review	First read post ED	Approve final	
Materiality	Project proposal	Issues	Issues	First read
e-Code	Discussion	Finalize Phase 2		
Technology	Nature and timing of deliverables subject to fact finding and IESBA discussions			
Service Delivery Models	Nature and timing of deliverables subject to fact finding and IESBA discussions			
Tax Planning	Nature and timing of deliverables subject to fact finding and IESBA discussions			
Definitions of PIE and listed entity		Project proposal	Issues	Issues
IAASB Coordination Topic 2	TBD	TBD	TBD	TBD
IAASB-IESBA Coordination			Discussion	
SWP 2024-2028				Discuss survey
General Code Maintenance	TBD		TBD	
EIOC		Discussion		Discussion

2022

Work Stream	Mar 2022	Jun 2022	Sep 2022	Dec 2022
Technology	Nature and timing of deliverables subject to fact finding and IESBA discussions			
Materiality	Update	Approve ED		Full review
Definitions of PIE and listed entity	First read	Approve ED	Update	Full review
NOCLAR post-implementation review	Establish WG	Discussion	Fact finding	Fact finding
Long Association post-implementation review	Establish WG	Discussion	Fact finding	Fact finding
IAASB Coordination Topic 2	TBD	TBD	TBD	TBD
IAASB-IESBA Coordination			Discussion	
SWP 2024-2028	Approve survey		Full review	First read CP
General Code Maintenance	TBD		TBD	
EIOC		Discussion		Discussion

2023

Work Stream	Mar 2023	Jun 2023	Sep 2023	Dec 2023
Definitions of PIE and listed entity	Approve final			
Materiality	First read post ED	Approve final		
NOCLAR post-implementation review	Update	Preliminary report	Final report	
Long Association post-implementation review	Preliminary report	Final report		
Post-implementation review restructured Code		Establish WG	Discussion	Fact finding
Communication with TCWG	Project proposal	Issues	Issues	First read
Documentation			Project proposal	Issues
SWP 2024-2028	Approve CP		Full review	Approve final
IAASB Coordination Topic 3	TBD	TBD	TBD	TBD
IAASB-IESBA Coordination			Discussion	
General Code Maintenance	TBD		TBD	
EIOC		Discussion		Discussion

Appendix 5

Summary Illustrative IESBA Work Plan 2019-2023

Work Stream	2018	2019	2020	2021	2022	2023
<i>Maintaining a Global Code that is Relevant and Fit for Purpose</i>						
E-Code						
Technology						
Service del. models						
EIOC						
<i>Raising the Ethical Bar through Further Strengthening the Code</i>						
Prof. skepticism						
NAS						
Fee-related matters						
Part 4B vs ISAE 3000						
Coordn topic 1						
Coordn topic 2						
Coordn topic 3						
Defs PIE and Listed						
Materiality						
Tax planning						
Comm. with TCWG						
Documentation						
Gen. maintenance						

Work Stream	2018	2019	2020	2021	2022	2023
<i>Raising the Ethical Bar through Increasing Global Adoption and Effective Implementation of the Code</i>						
NOCLAR post-impn						
LA post-impn						
Post-impn review restr. Code						
Promote global adoption						
Monitor and doc global adoption						
Action comm. Strategy						
Pursue stakeholder outreach						
Commission staff publications						
<i>Proactively engaging with key stakeholders and seeking cooperative avenues with them</i>						
SSB coordination						
Extend stakeholder engagement						
Speak out on ethics						

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	11 April 2018
Subject:	NZICA Exposure Draft: AUP Engagements
Date:	29 March 2018
Prepared by:	Peyman Momenan

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

- The objective for this agenda item is:
 - For the Board to CONSIDER and tentatively APPROVE, subject to feedback from the Board, the draft submission on the NZICA Exposure Draft, *Proposed Revision of APS-1 Statement of Agreed Upon Procedures Standard*.

Background

- The revision updates APS-1, and its associated guidance APG-1 *Guideline on Performance of an Agreed Upon Procedures Engagement*, for changing professional and ethical expectations that have evolved since this standard was first issued in 1992. The aim is to provide better support for members performing an Agreed Upon Procedures (AUP) engagement, and clients, regulators and others requesting one.
- NZICA needs to revise the extant APS-1 because the NZAuASB currently has no mandate to develop standards for 'non-assurance engagements'. It is anticipated that the NZAuASB's standard setting mandate will be broadened in the future to allow them to set an 'agreed upon procedures' standard but this requires a change in legislation. NZICA does have this mandate and so its revision of APS-1 will ensure that adequate, appropriate professional obligations for AUP engagements are in place until the NZAUASB mandate is amended.
- In revising APS-1, NZICA has followed the NZAuASB's standard setting approach. Therefore, this ED has been developed with reference to the relevant International standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400). It has also been developed to conform, where appropriate, to the equivalent Australian standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* (ASRS 4400), which has been used with the permission of the Australian Auditing and Assurance Standards Board (AUASB).
- Submissions to IESBA on the Exposure Draft are due on 21 May 2018.

Matters for Consideration

6. The NZAuASB is asked to CONSIDER and tentatively APPROVE, subject to Board feedback, the draft submission at Agenda Item 7.2.

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Draft Submission
Agenda item 7.3	NZICA Exposure Draft

[Date]

Gillian Hawkesby
New Zealand Regulation Lead
Chartered Accountants Australia and New Zealand
PO Box 11342
Wellington 6142

Dear Gillian,

New Zealand Regulatory Board of Chartered Accountants Australia and New Zealand Exposure Draft 2018-1 – Proposed Revision of APS-1 Statement of Agreed Upon Procedures Standard

Thank you for the opportunity to comment on this Exposure Draft (ED). We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the attachment.

As you are aware, the NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards. That responsibility currently excludes standards for agreed-upon procedures (AUP) engagements, as these are not assurance engagements. However, the XRB is working to and anticipates a change to that mandate in the short term, in response to the increasing demand for such engagements. AUP engagements are often seen in a similar light to assurance procedures and maintaining the distinction between assurance and AUP will be a significant challenge for the NZAuASB.

The NZAuASB is supportive of the CAANZ New Zealand Regulatory Board initiative to revise APS-1, *Statement of Agreed-Upon Procedures Standards 1*. APS-1 was issued in October 1992 by the then New Zealand Society of Accountants and to enhance it against the background of increasing demand for AUP engagements is timely. The NZAuASB appreciates and supports that the CAANZ has followed the NZAuASB's approach to adopt the standards issued by the International Auditing and Assurance Standards Board (IAASB) and to conform the ED with the equivalent standard issued by the Australian Auditing and Assurance Standards Board (AUASB). The NZAuASB agrees that the proposed APS-1 (revised) as a whole will enhance the professional standards to support the performance of AUP engagements.

Furthermore, the NZAuASB notes the transitory nature of the ED which will be effective until the IAASB's current project to revise and update ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400) is finalised.

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

Yours sincerely,

Robert Buchanan

Chairman

Email: robert@buchananlaw.co.nz

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198737.1

Submission of the New Zealand Auditing and Assurance Standards Board

Exposure Draft 2018-1 *Proposed Revision of APS-1 – Statement of Agreed Upon Procedures Standards.*

I Schedule of Responses to the CAANZ's Specific Questions

General

- 1. What, if any, are the additional significant costs to/benefits for members and wider public interest from compliance with the proposals in this ED?**

Response:

As noted in the Invitation to Comment (ITC) there has been significant development in professional and ethical expectations associated with AUP engagements since the extant APS-1 was first issued in 1992. Given the increasing demand for AUP engagements, including from regulators, it is important that the professional standard to support performance of AUP engagements is appropriately and adequately enhanced and updated to better align relevant requirements with the professional and ethical standards of today, as well as current best practices of AUP engagements. The wide range of users that may demand AUP engagements are likely to benefit from these enhancements. This indicates that incorporating the proposed revisions is in the public interest. The NZAuASB does not envisage any significant additional costs for complying with the proposals in this ED.

- 2. Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposed amendments?**

Response:

The NZAuASB is not aware of any such issues.

Differentiating an AUP engagement

- 3. Does the ED adequately clarify the nature and differences between AUP, assurance and other types of engagements? Is the associated guidance in Appendix 1 and 2 of the ED helpful? Are there additional examples which would be useful?**

Response:

The NZAuASB believes that the ED adequately clarifies the nature and differences between AUP, assurance and other types of engagements and that the guidance in Appendix 1 and 2 of the ED are helpful. The NZAuASB believe that the examples included in these appendixes are appropriate and adequate.

Ethical issues

- 4. Will adherence to the professional and ethical obligations in the NZICA Code of Ethics, applicable to 'Other Assurance Engagements', present any additional costs for members performing AUP engagements? Will these costs, if any, be passed on to the business community? Are there any other ethical issues associated with AUP engagements that the NZICA Code of Ethics does not adequately address?**

Response:

The NZAuASB supports the ED's approach to require the practitioner to adhere to the professional and ethical obligations in the NZICA Code of Ethics applicable to 'Other Assurance Engagements'. The NZAuASB strongly supports the need for the practitioner performing an AUP engagement to be independent. Independence enhances the value and credibility of an AUP engagement.

The NZAuASB is not aware of any other relevant ethical issues that need to be addressed in the PES 1 in relation to AUP engagements.

AUP Engagements on Non-Financial Information

- 5. Will adherence to the independence requirements in the NZICA Code of Ethics applicable to 'Other Assurance Engagements' for 'Reports that Include a Restriction on Use and Distribution (paragraphs 291.21- 27)', unless specifically modified, present any additional costs for members? Will these costs, if any, be passed on to the business community?**

Response:

The NZAuASB believes that aligning the independence requirements for AUP engagements to requirements in Professional and Ethical Standards 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1 (Revised)) for 'Reports that include a Restriction on Use and Distribution' is appropriate.

Users of AUP engagements

- 6. Does the requirement to obtain an understanding of the needs and objectives of the intended users of the report, prior to acceptance of an AUP engagement, pose any practical difficulties?**

Response:

The NZAuASB believes that meeting the requirement included in paragraph 17 of the ED is fundamental to ensure that an AUP engagement is appropriate and fit for purpose. The principle of obtaining an appropriate understanding of the needs and objectives of the intended users is central to AUP engagements.

Engagement acceptance

- 7. Are the preconditions that must be satisfied before a member can accept an AUP engagement appropriate in the circumstances?**

Response:

The NZAuASB supports the appropriateness of the preconditions to accept an AUP engagement included in paragraphs 17 to 21 of the ED.

- 8. Is it appropriate to require the terms of an AUP engagement to be documented in written form and is the proposed additional content necessary?**

Response:

The NZAuASB believes that the requirement included in paragraphs 22 to 25 of the ED are appropriate and necessary. In general, the NZAuASB supports requiring that all intended users

should be signatories to the terms of engagement if this is practical. The guidance in paragraph A12 of the ED is helpful for the practitioner to deal with circumstances where not all intended users can be made available to sign the terms of engagement.

Professional judgement

- 9. Do you agree that the member only exercises professional competence and skill in conducting the AUP engagement or is there also a need to exercise professional judgement and if so, in what areas?**
- 10.** The NZAuASB notes that the role of professional judgement in an AUP engagement is identified by the IAASB as an important matter in the IAASB' project to revise the ISRS 4400. In NZAuASB response to the IAASB's Discussion Paper (DP), *Exploring the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's international standards* the NZAuASB noted that professional judgement is intrinsic in all work performed by the practitioner regardless of the nature of the engagement.

The ED appropriately describes the distinction between an assurance engagement and an AUP engagement and the requirements and application material appropriately address the use of professional judgement.

- 11. Is it appropriate and practical to require changes to the procedures after an engagement has commenced to be the subject of a new engagement negotiation and agreement?**

Response:

The NZAuASB supports the CAANZ's view stated in para 61 of the ITC that amending, altering or adding procedures to those agreed with the engaging party and intended users is inappropriate for an engagement where users have control over the procedures to be performed. Accordingly, the requirement to obtain the engaging party's approval for any changes is appropriate. The NZAuASB considers it appropriate that the ED has clarified in para 25 of the ED that a practitioner may need to initiate any alteration of the agreed procedures only when the practitioner is unable to perform the procedures as they were originally specified. This is consistent with the roles and responsibilities of parties to an AUP engagement.

Quality control and documentation

- 12. Will adherence to the quality control requirements in PS-1 Quality Control for an AUP engagement present any additional costs for members? Will these costs, if any, be passed on to the business community? Are there any matters relevant to AUP engagements that PS-1 does not adequately cover?**

Response:

The NZAuASB does not have any comments in relation to potential additional costs. Also, the NZAuASB has not identified any other matters relevant to AUP engagements that the PS-1 does not consider.

Reporting

13. Is it appropriate and practical to restrict the report to those users who are party to the terms of engagement?

Response:

The NZAuASB supports the proposed requirement in the ED to restrict the AUP report to those intended users who are party to the terms of engagements (by either signing the terms of engagement or where this is impractical by being identified in the terms of the engagement as required under para 22 of the ED).

The NZAuASB considers that it would be inappropriate for AUP reports to be used as general use reports as all readers are unlikely to have the necessary context to understand the procedures performed, evaluate the results and draw their own conclusions from the factual findings.

14. Does the report wording effectively communicate the nature and scope of the work performed by the member? Are there items that should be added or removed?

Response:

The NZAuASB believes that the report wording is appropriate. The NZAuASB has not identified any items that need to be added or removed.

15. Is the guidance on dealing with engagements mandated under law or regulation with specified report formats appropriate?

Response:

The NZAuASB supports the proposed approach in the ED on dealing with the engagements mandated under law or regulation with specified report formats that do not meet the reporting requirements of the proposed standard. Paragraph 44 provides an appropriate avenue for managing such circumstances.

Multiscope engagements

16. Does this standard need any additional guidance for members dealing with multi scope engagements that include an agreed upon procedures component?

Response:

The NZAuASB notes that multi scope engagements have been identified by the IAASB as an area requiring additional guidance. And while guidance would be useful, the NZAuASB sees the revision of APS-1 as a priority.

Unaddressed issues

17. Are there any areas you believe require additional guidance or other matters you wish to raise?

Response:

The NZAuASB does not have any further comments.



New Zealand Regulatory Board

Exposure Draft 2018-1

Proposed revision of APS-1 *Statement of Agreed Upon Procedures Standards*

INVITATION TO COMMENT

FEBRUARY 2018

Chartered Accountants Australia and New Zealand

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INVITATION TO COMMENT ON PROPOSED REVISION OF *STATEMENT OF AGREED UPON PROCEDURES ENGAGEMENT STANDARDS 1 (APS-1)*

Information for Respondents

The New Zealand Regulatory Board (NZRB) is seeking comments on a proposed revision of the *Statement of Agreed Upon Procedures Engagement Standards 1* (APS-1) that applies to New Zealand resident members of Chartered Accountants Australia and New Zealand (CA ANZ).

The revision updates APS-1, and its associated guidance APG-1 *Guideline on Performance of an Agreed Upon Procedures Engagement*, for changing professional and ethical expectations that have evolved since this standard was first issued in 1992. The aim is to provide better support for members performing an Agreed Upon Procedures (AUP) engagement, and clients, regulators and others requesting one.

Respondents are encouraged to supplement their opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. However, respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish. The NZRB will consider all comments in finalising this standard.

Comments should be sent to:

Gillian Hawkesby
New Zealand Regulation Lead
PO Box 11342
Wellington 6142
Email: submission.feedback@charteredaccountantsanz.com

It would be appreciated if respondents would include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments. Respondents are asked to indicate in their submission on whose behalf the submission is being made (for example own behalf, a group of people, or an entity).

The closing date for comments is **Monday 21 May 2018**.

All information is handled in accordance with [CA ANZ's Privacy Policy](#)

List of Abbreviations

Term	Abbreviation
ASRS 4400	ASRS 4400 <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i> , issued by the AUASB
AUP	Agreed Upon Procedures
APS-1	<i>Statement of Agreed Upon Procedures Engagement Standards</i> (issued in October 1992 and as subsequently revised by NZICA)
APS-1 Standard 1 through 8	The eight individual standards comprising APS-1
APS-1(revised)	Engagement Standard – <i>Agreed- Upon Procedures Engagements to Report Factual Findings</i> (the revised APS-1 based on this ED)
ASRS	Australian Standard on Related Services, issued by the AUASB
APG-1	<i>Guideline on Performance of an Agreed Upon Procedures Engagement</i> (issued in October 1992 by NZICA)
AUASB	Australian Auditing and Assurance Standards Board
CA ANZ	Chartered Accountants Australia and New Zealand
Code of Ethics	NZICA <i>Code of Ethics</i> applying to New Zealand resident members of CA ANZ
DP	Discussion Paper
ED of 'APS-1(revised)' or 'ED'	The draft of 'APS-1(revised)' included with this ITC
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
ITC	This Invitation to Comment
ISRS	International Standard on Related Services (issued by the IAASB)
NZAuASB	New Zealand Auditing and Assurance Standards Board
NZICA	New Zealand Institute of Chartered Accountants (a regulatory body in New Zealand that is now part of Chartered Accountants Australia and New Zealand)
NZRB	New Zealand Regulatory Board
PS-1	NZICA Professional Standard 1 <i>Quality Control</i>

Questions for Respondents

Comments are invited on the Exposure Draft of the proposed 'APS-1(revised) *Agreed Upon Procedures Engagements to Report Factual Findings*' by no later than 21 May 2018. In formulating responses, please consider and respond to the following questions:

	Paragraphs
General	
1. What, if any, are the additional significant costs to/benefits for members and the wider public interest from compliance with the proposals in this ED?	1 -16
2. Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposed amendments?	1-16
Differentiating an AUP engagement	
3. Does the ED adequately clarify the nature and differences between AUP, assurance and other types of engagements? Is the associated guidance in Appendices 1 and 2 of the ED helpful? Are there additional examples which would be useful?	21-24
Ethical issues	
4. Will adherence to the professional and ethical obligations in the NZICA Code of Ethics, applicable to ' <i>Other Assurance Engagements</i> ', present any additional costs for members performing AUP engagements? Will these costs, if any, be passed on to the business community? Are there any other ethical issues associated with AUP engagements that the NZICA Code of Ethics does not adequately address?	25-28
Independence	
5. Will adherence to the independence requirements in the NZICA Code of Ethics, applicable to ' <i>Other Assurance Engagements</i> ' for ' <i>Reports that Include a Restriction on Use and Distribution</i> ' (see paragraphs 291.21- 27), unless specifically modified, present any additional costs for members? Will these costs, if any, be passed on to the business community?	29-37
Users of AUP engagements	
6. Does the requirement to obtain an understanding of the needs and objectives of the intended users of the report, prior to acceptance of an AUP engagement, pose any practical difficulties?	38-42
Engagement acceptance	
7. Are the preconditions that must be satisfied, before a member can accept an AUP engagement, appropriate in the circumstances?	43-55

- | | | |
|----|--|-------|
| 8. | Is it appropriate to require the terms of an AUP engagement to be documented in written form and is the proposed additional content necessary? | 52-55 |
|----|--|-------|

Professional Judgement issues

- | | | |
|-----|--|-------|
| 9. | Do you agree that the member only exercises professional competence and skill in conducting an AUP engagement or is there also a need to exercise professional judgement and if so, in what areas? | 57-65 |
| 10. | Is it appropriate and practical to require changes to the procedures after an engagement has commenced to be the subject of a new engagement negotiation and agreement? | 61-62 |

Quality Control and Documentation

- | | | |
|-----|--|-------|
| 11. | Will adherence to the requirements in PS-1 <i>Quality Control</i> for an AUP engagement present any additional costs for members? Will these costs, if any, be passed on to the business community? Are there any matters relevant to AUP engagements that PS-1 does not adequately cover? | 66-68 |
|-----|--|-------|

Reporting

- | | | |
|-----|---|--------|
| 12. | Is it appropriate and practical to restrict the report to those users who are party to the terms of engagement? | 69 |
| 13. | Does the report wording effectively communicate the nature and scope of the work performed by the member? Are there any other matters that should be addressed? | 70- 75 |
| 14. | Is the guidance on dealing with engagements mandated under law or regulation with specified report formats appropriate? | 76 |

Multi scope engagements

- | | | |
|-----|--|----|
| 15. | Does this standard need additional guidance for members dealing with multi scope engagements that include an agreed upon procedures component? | 77 |
|-----|--|----|

Unaddressed issues

- | | | |
|-----|---|--|
| 16. | Are there any areas you believe require additional guidance or other matters you wish to raise? | |
|-----|---|--|

The NZRB would prefer that respondents express a clear overall opinion on whether the proposed APS-1 (revised) as a whole is supported. This opinion should be supplemented by detailed comments, whether supportive or critical, on any matter. Both critical and supportive comments are essential to a balanced review of the proposed APS-1(revised). However, respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish. The NZRB will consider all comments in finalising this standard.

Introduction

1. The New Zealand Regulatory Board (NZRB) is seeking comments on a proposed revision of the *Statement of Agreed Upon Procedures Engagement Standards 1* (APS-1) that applies to New Zealand resident members of Chartered Accountants Australia and New Zealand (CA ANZ).
2. The revision updates APS-1, and its associated guidance APG-1 *Guideline on Performance of An Agreed Upon Procedures Engagement*, for changing professional and ethical expectations that have evolved since both were first issued in 1992.
3. This Invitation to Comment (ITC) discusses, and the accompanying Exposure Draft (ED) contains, the content of a proposed revised and renamed Engagement Standard *Agreed-Upon Procedures Engagements to Report Factual Findings* (APS-1(revised)). The aim of the proposed new standard¹ is to provide members performing AUP engagements, and regulators and others requesting them with better support. The new APS-1(revised) will include any necessary guidance, allowing APG-1 to be withdrawn.

Background

4. The New Zealand Institute of Chartered Accountants (NZICA) is responsible for maintaining, monitoring compliance with, and enforcing professional and ethical standards of New Zealand resident members of CA ANZ, in accordance with the *New Zealand Institute of Chartered Accountants Act 1996*. In addition, as an accredited body under the *Auditor Regulation Act 2011*, NZICA is required to comply with the current membership criteria of the International Federation of Accountants (IFAC). Members of IFAC are required to have professional standards at least as stringent as those issued by the international standard setting boards.
5. NZICA needs to revise the extant APS-1 because the New Zealand Auditing and Assurance Standards Board (NZAuASB), which develops New Zealand's auditing and assurance standards, currently has no mandate to develop standards for 'non assurance engagements'. An agreed upon procedures (AUP) engagement is one example of such a 'non assurance engagement'. It is anticipated that the NZAuASB's standard setting mandate will be broadened in the future to allow them to set an 'agreed upon procedures' standard but this requires a change in legislation. NZICA does have this mandate and so its revision of APS-1 will ensure that adequate, appropriate professional obligations for AUP engagements are in place until such time as the NZAUASB mandate is amended.
6. In revising APS-1, NZICA has followed the approach of the NZAuASB, whose standard setting activity adopts the standards of the International Auditing and Assurance Standards Board (IAASB), modified as necessary to reflect unique New Zealand conditions. Therefore, this ED has been developed with reference to the relevant International standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400). It has also been developed to conform, where

¹ Compliance with this new standard will be mandatory in terms of paragraph 130.1(b) of the Code of Ethics

appropriate, to the equivalent Australian standard *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings* (ASRS 4400), which has been used with the permission of the Australian Auditing and Assurance Standards Board (AUASB). ASRS 4400 conforms to ISRS 4400 but has been more recently updated to reflect current best practice for AUP engagements. Maintaining consistency with ASRS 4400 also furthers the Trans-Tasman harmonisation obligations of the AUASB and NZAuASB.

Timeline and Next steps

7. Submissions on this ED are due on 21 May 2018. Information on how to submit a comment is contained on page 3 of this ITC.
8. After the consultation period ends, the NZRB will consider the submissions received and, subject to the comments in those submissions, anticipates being able to finalise the revised standard shortly thereafter. NZICA expects to issue this standard in August 2018 with an effective date of 1 January 2019.

Future amendments

9. The IAASB is currently undertaking a project to revise and update ISRS 4400. This project addresses the growing demand for agreed upon procedures engagements worldwide and considers the implications this has for the IAASB's wider standard setting work. Its recent Discussion Paper (DP), [*Exploring the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's international standards*](#), set out the key features of an AUP engagement and explored how they are undertaken and the extent to which members find the existing IAASB requirements and guidance helpful or challenging. The DP closed for comment in March 2017 and an IAASB working group is currently analysing responses. An [*agreed upon procedures feedback report*](#) was tabled at the IAASB's September 2017 meeting, containing an overview of the key messages the board has received. A revised [*project proposal*](#) was also tabled at that meeting, indicating that the IAASB expects to issue an ED in late 2018 and a new standard in late 2019. In the meantime the IAASB has published a new report [*Agreed Upon Procedures - A growth and value opportunity*](#) to help practitioners, clients and regulators understand the nature and benefits of AUP engagements. It includes case studies that showcase some of the more common financial and non financial AUP engagements being performed worldwide.
10. Once ISRS 4400 is amended, it is likely that the requirements of the NZICA standard will need to be revisited. By this time it is anticipated that NZAUASB may have a revised legislative mandate permitting it to issue standards for non assurance engagements.

Overview of proposed amendments

Where the ED fits in New Zealand's professional standards framework

11. An AUP engagement involves members performing procedures that have been agreed to by the member, the entity involved and any intended users of the engagement. The performance of the specified procedures enables the member to produce a report of the factual findings for distribution to these intended users. The users assess the factual findings for themselves, drawing their own conclusions on the subject matter under investigation. The member does not evaluate the findings or express any form of conclusion on them and the report prepared is only distributed to the users who are party to the engagement.
12. The types of procedures performed in an AUP engagement are often similar to procedures conducted as part of audit or review engagements. This, along with the fact that members regularly conduct all these types of engagements, has led many users to become confused about how and why all these engagement types differ. However, those differences are more than semantic, relating to the nature of the information examined, and the conclusion the member reaches based on the work performed on that information. This means that one type of engagement cannot substitute for another. The differences are explained in more detail in CA ANZ's publication [Audit, Assurance and Related Services](#), which guides members assisting their clients to identify the most appropriate type of engagement for their needs. The NZAuASB has also recently published a new guide [Assurance for Not-for-profits: A guide for funding organisations](#), which also addresses these issues.
13. In summary, an assurance engagement is one where the member is engaged to evaluate subject matter (such as financial transactions) against a set of criteria (such as a financial reporting framework) to reach a conclusion. This conclusion ranges from reasonable assurance (provided in an audit opinion) to limited assurance (provided in a review conclusion). The work performed is determined by the member and must be sufficient and appropriate to support the resulting opinion or conclusion given. That conclusion is then issued for use by a wide range of unspecified users. By way of contrast, no conclusions are drawn, or opinion expressed, in an AUP engagement. The member performs only those procedures that they, and the users of the engagement, have agreed to and the distribution of the report is restricted to only those users.
14. The use of AUP engagements in New Zealand is growing because they are useful in a range of circumstances and this increasing demand is expected to continue. For example, grant providers may request an AUP engagement to ensure that the funds they provided were banked by the organisation and spent on the purpose for which the money was provided (such as purchasing equipment or paying staff). Regulators may also request an AUP engagement to ensure that a legislative return agrees to the underlying financial information of the entity (for example the Gaming Machine Summaries required by the Department of Internal Affairs or the Net Tangible Asset Returns required by the Financial Markets Authority).
15. It is therefore important to ensure that New Zealand has an adequate professional standards framework to support the performance of AUP engagements in the same way that its audit and assurance engagements are supported by standards issued by the NZAuASB. Since the NZAuASB does not have a mandate for the

issue of non assurance standards, it is NZICA's responsibility to ensure the AUP standard is up to date via the revision of the extant APS-1.

16. The major changes between the ED of 'APS-1(revised)' and the extant APS-1 are set out in Appendix A to this ITC, and discussed further in the following paragraphs. The differences in both form and content reflect the changes in professional and ethical expectations associated with these engagements that have occurred since the extant APS-1 was first issued in 1992.

Questions for respondents

General

1. What, if any, are the additional significant costs to/benefits for members and wider public interest from compliance with the proposals in this ED?
2. Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposed amendments?

Summary of key differences between the extant APS-1 and this ED

17. The key areas where the requirements of the ED of 'APS-1(revised)' differ from those contained in the extant APS 1 are listed below. The list also identifies the paragraphs of the ITC where these issues are discussed. The key changes are :-
- a) **Differentiating AUP engagements** – the ED offers greater analysis of the difference between assurance and AUP engagements and the implications these have for engagement design, acceptance and reporting (see ITC paragraphs 21-22)
 - b) **Independence** – the ED imposes an independence requirement but permits it to be modified - (see ITC paragraphs 29- 37)
 - c) **Users of AUP engagements** – the ED imposes more explicit obligations on the member to understand the needs of intended users of the report (not just the client) (see ITC paragraphs 38- 42)
 - d) **Preconditions for engagement acceptance** – the ED proposes enhanced requirements to ensure only appropriate engagements are accepted (see ITC paragraphs 43-51)
 - e) **Terms of engagement** – the ED mandates the completion of a written terms of engagement to document the procedures that have been agreed (see ITC paragraphs 52-56) and does not permit changes to those procedures without new engagement documentation (see ITC paragraph 61)
 - f) **Professional judgement** – the ED clarifies the role this plays in the acceptance, planning, performance and reporting of an AUP engagement (see ITC paragraphs 57 – 65)
 - g) **Form and content of the report of factual findings** – the ED proposes enhanced disclosures to ensure differences between an AUP and an assurance engagement are clear (see ITC paragraphs 74 -75). Additional disclosures addressing independence and the impact of laws and regulations on engagement reporting (see ITC paragraph 76) are also included.

18. Where the requirements in extant APS-1 duplicate other existing professional and ethical obligations, this duplication has been removed to avoid inconsistency. Accordingly, the ED directs members to the NZICA Code of Ethics for relevant ethical requirements (see ITC paragraphs 25 -28) and to existing quality control standard PS-1 *Quality Control* for requirements dealing with engagement quality control and documentation (see ITC paragraphs 66 - 68).
19. Where the requirements in the extant APS-1 remain appropriate, the intention in the ED was to maintain these in the most appropriate manner and transfer the content of any associated guidance in APG-1 into the new standard, (allowing APG-1 to be withdrawn). Examples of such requirements relate to
- a) using the work of others (extant APS 1 Standard 4 *Work Performed by Assistants or Others* and paragraphs 33 and 34 of the ED).
 - b) the specific nature of agreed upon procedures to be performed (see paragraph 8 of the extant APG-1 and paragraph A15 of the ED).
20. Discussion on these common issues has not been specifically raised in this ITC, although members are welcome to submit views if they consider that the new requirements are different in effect from the existing ones.

Differentiating an AUP engagement

21. As discussed earlier, there is confusion about the objectives and outcomes of, and differences between, AUP engagements, audits and assurance engagements. The ED of APS-1(revised) rewords the objective of an AUP engagement to improve the clarity of the difference between it and assurance engagements. The key elements of an AUP engagement implicit in the extant APS-1 remain, that is the performance of procedures by a competent professional to meet a user's information needs and the communication of the results of that work via a report of factual findings that does not provide assurance (see extant APS -1 paragraphs 5 and 6). However the new objective in paragraph 13 of the ED more specifically refers to the nature of the user group for which the AUP report is prepared. It also no longer presumes that the reports are primarily for financial information (although the extant APS-1 does acknowledge that it may be adapted to non-financial information).
22. To demonstrate more clearly where an AUP engagement fits in, discussion of the differing objectives of the variety of engagements that a member may be asked to undertake has now been included in paragraphs 5-10 of the ED. The discussion focuses specifically on the nature of an assurance engagement, how this differs from an AUP engagement and the resulting implications for members. These principles have then been carried through the ED with wording addressing these issues specifically included in the requirements regarding negotiating and documenting engagement acceptance (see ITC paragraph 54) and reporting (see ITC paragraph 73).
23. The ED also proposes new requirements emphasising that members performing AUP engagements cannot conduct risk assessments, or apply materiality (see ED paragraphs 28 and 29). These restrictions seek to reinforce the fact that the responsibility for the design of procedures must lie with the engaging party or intended users, not the member. Where engagements involve risk assessment or materiality, it is likely that elements of an assurance engagement are present and therefore the engagement is not an AUP engagement.

24. Additional guidance on distinguishing AUP engagements from other assurance engagements is contained in paragraphs A4-A8, and in Appendices 1 and 2, of the ED.

Question for respondents

Differentiating an AUP engagement

3. Does the ED adequately clarify the nature and differences between AUP, assurance and other types of engagements? Is the associated guidance in Appendix 1 and 2 of the ED helpful? Are there additional examples which would be useful?

Ethical Issues

25. New Zealand resident members of CA ANZ are required to comply with NZICA's Code of Ethics (and its equivalent for assurance practitioners, Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1(Revised))).
26. The NZICA Code of Ethics requires members to comply with the following fundamental ethical principles
- Integrity (paragraph 110)
 - Objectivity (paragraph 120)
 - Professional Competence and Due Care (paragraph 130)
 - Confidentiality (paragraph 140)
 - Professional Behaviour (paragraph 150)
27. The extant APS-1 includes these fundamental principles as separate standards as follows:-
- Standard 1 *Integrity, Objectivity and Independence*,
 - Standard 2 *Confidentiality*
 - Standard 3 *Skills and Competence*
 - Standard 7 *Professional Behaviour*.
28. Rather than repeat the ethical requirements, the ED of 'APS-1 (revised)' proposes to direct members to the NZICA Code of Ethics where these issues are more comprehensively covered. The ED proposes that members performing AUP engagements comply with the professional and ethical obligations of the NZICA Code of Ethics as it applies to '*Other Assurance Engagements*' i.e. consistent with the 'other assurance' requirements of the NZAuASB's PES 1(Revised). This direction ensures members performing AUP engagements need only one, already familiar, reference point for their ethical obligations, avoiding inconsistency and duplication.

Question for respondents

Ethical issues

4. Will adherence to the professional and ethical obligations in the NZICA Code of Ethics, applicable to '*Other Assurance Engagements*', present any additional costs for members performing AUP engagements? Will these costs, if any, be passed on to the business community? Are there any other ethical issues associated with AUP engagements that the NZICA Code of Ethics does not adequately address?

Independence

29. Independence of both mind and appearance is a required attribute of audit and assurance engagements. Independence ensures that a member can draw the conclusions necessary to issue the report required for these types of engagements, without bias, conflict of interest or undue influence from others.² Since the assurance opinion or conclusion is included in a report that can go to a wide range of unspecified users, confidence in the credibility of that opinion or conclusion by any of those users is vital. Accordingly the NZICA Code of Ethics, (via PES -1) specifies independence requirements appropriate to both audit and review engagements (paragraph 290) and other assurance engagements (paragraph 291). These requirements support the achievement of the appropriate degree of independence by members for these engagement types.
30. In AUP engagements members only report factual findings and so requirements for independence to support the credibility of an opinion or conclusion are unnecessary. In addition, the specified user(s) of the report of factual findings may not need the same level of confidence about credibility that the unspecified user(s) of an audit or review report finds valuable. This is because the parties to an AUP engagement are in a direct relationship, outlined in the terms of the engagement and the report of factual findings. However, those specific users may still value the additional confidence in the member's objectivity that independence offers them.
31. The extant APS-1 imposes the general principle that 'a member must be free from any interest which might be regarded, whatever the actual effect of being incompatible with integrity and objectivity' (see Standard 1). This general principle is repeated in paragraph 280 of the Code of Ethics, dealing with objectivity, which directs members to any relevant professional engagement standard and to applicable legislative or other requirements applicable to that engagement for additional independence requirements.
32. In practice, regulators using reports of factual findings often require the auditor/ reviewer of the lodging entity's financial statements to perform these procedures because of the confidence they have in that level of objectivity. The member's familiarity with the financial statements and underlying records of the client (gained from an audit or review engagement) can also make for a more efficient AUP engagement. For example, the Financial Markets Authority requires a qualified auditor to provide a report of factual findings in respect of the Net Tangible Asset calculation as part of the standard conditions for derivative issuer licenses.
33. Therefore the ED proposes that members performing AUP engagements be required to comply with the independence requirement equivalent to that applicable to '*Other assurance engagements*' for '*Reports that Include a*

² See NZICA Code of Ethics paragraph 280.

*Restriction on Use and Distribution*³ This level is less onerous than that required for audits or reviews of financial reports but is consistent with those requirements, offering a familiar benchmark.

34. Notwithstanding the above, the proposals in the ED permit the member, and the engaging party, to further modify these independence requirements to meet the specific circumstances of the engagement. In these circumstances both the engaging party and the intended users must agree to that modification. These modified independence requirements must be documented in the terms of engagement (ITC paragraph 54) and described in the report of factual findings issued by the member (ITC paragraph 73).
35. The independence requirements contained in paragraph 291.25 of the NZICA Code of Ethics, (via PES-1), require the engagement team and their immediate and close family members to consider and address threats to independence arising from
- financial interests (paragraphs 291.104 - 291.111)
 - loans and guarantees (paragraphs 291.112 - 291.117),
 - business relationships (paragraphs 291.118 - 291.119),
 - family and personal relationships (paragraphs 291.120 - 291.125),
 - employment with assurance clients (paragraphs 291.126 - 291.129)
 - temporary staff assignments (paragraph 291.129.1)
 - recent service with an assurance client (paragraphs 291.130 - 291.132)
 - serving as an officer or director of an assurance client (paragraphs 291.133 - 291.134)
36. Paragraph 291.125 also requires that an evaluation of threats to independence be made for
- other members of the engagement team that provide consulting advice on technical or industry specific issues
 - anyone involved in providing quality control for the engagement
 - anyone who can directly influence the outcome of the engagement, including those who recommend compensation, or who provide direct supervisory management or other oversight of the partner in charge of the engagement.
37. Paragraphs 291.26 - 27 prohibit firms having a material financial interest in the client and requires the firm to evaluate any threats created by network firm interests and relationships.

Question for respondents

Independence

5. Will adherence to the independence requirements in the NZICA Code of Ethics applicable to 'Other Assurance Engagements' for 'Reports that Include a Restriction on Use and Distribution' (paragraphs 291.21- 27)', unless specifically

³ (see NZICA Code of Ethics paragraph 291.25- 291.27).

modified, present any additional costs for members? Will these costs, if any, be passed on to the business community?

Users of AUP engagements

38. AUP engagements are used by a variety of users for a variety of reasons. At their simplest, they will be an agreement between a member and a client to perform specific procedures on specific information. More commonly, AUP engagements are now being sought by regulators, banks and other third parties, seeking the member to perform tests on client information which support or complement financial statements, annual returns or loan and grant applications. The involvement of such users in the engagement is recognised in extant APS-1 Standard 8 'Reporting' which requires the report to be restricted to those parties for whom the procedures have been performed. Paragraph 7 of the extant APG-1 notes that this may not just be the client, but may include 'other specified parties who will receive a copy of the report of factual findings.' It therefore requires the member to meet with these parties and discuss their needs prior to accepting the engagement. It also discusses the difficulties that a member may have in identifying all the parties that will receive this report and suggests appropriate courses of action.
39. The ED proposes to make the existence of all intended users in an AUP agreement more explicit. It therefore distinguishes between the engaging party (which is usually the member's client) and other intended users who will obtain the report. These users may be individuals, organisations or groups thereof.
40. The ED also recognises that 'groups of intended users' may make it difficult to identify the specific needs of members of that group. In those circumstances, a representative of that group of users can specify the needs of the group. This can be accepted by the member provided they are satisfied that the needs of the group have been appropriately considered and addressed.
41. In referring to multiple similar users, the word 'group' has been used, consistent with definition of 'intended users' in ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the NZAuASB. Other standards use the word 'class' to refer to items of a similar nature (as in an 'individual or a class of FMC reporting entities' in the NZICA Code of Ethics) or a 'class' of transactions in NZ IAS 34 *Interim Financial Reporting* and a 'class' of assets in NZ IAS 16 *Property Plant and Equipment*.
42. The 'restricted reporting' implications of involving all intended users are discussed further in the 'Reporting section' of this ITC (paragraph 69).

Question for respondents

Users of AUP engagements

6. Does the requirement to obtain an understanding of the needs and objectives of the intended users of the report, prior to acceptance of an AUP engagement, pose any practical difficulties?

Engagement Acceptance

Preconditions for Engagement Acceptance

43. Obtaining a clear understanding from the users about the objectives of the engagement being sought, before it is undertaken, is essential if misunderstandings about the different types of engagements performed by members is to be reduced. It will also ensure that all parties understand the respective roles and responsibilities of each party to the engagement.
44. The ED of APS-1(revised) proposes, in paragraph 17, that the member 'must obtain an understanding of the needs and objectives of the intended users and the purpose for which that report will be used'. Similar wording is contained in extant APS-1 paragraph 10 which states that 'it is essential that a clear understanding exists between the member and the client as to the extent and nature of the member's responsibilities'. This idea is reiterated in paragraph 6 of extant APG-1 which states that 'prior to the performance of the engagement it is important that there is a clear understanding between the client and the member as to the nature and extent of the services to be provided and the responsibilities of the member and the client'.
45. However, in an AUP engagement, ensuring that not only the client (engaging party), but the other intended users as well, understand their responsibilities is critical, given the level of responsibility they have for the work they require the member to perform. This makes it appropriate to require members to be more proactively engaged in ensuring that they do not accept engagements which do not meet the needs of their users and provide guidance to assist with this decision.
46. The extant APS-1 prevents a member accepting an engagement in circumstances where they cannot :-
 - appoint staff to the engagement that have the skills and competence to perform it (Standard 4 *Skills and Competence*) and
 - limit the distribution of their report of factual findings, because this is not permitted by relevant law or regulations (APG-1 paragraph 7).
47. Both these restrictions continue to be appropriate and have been repeated in the ED at paragraphs 19 and 20(c). However there are other concerns inherent in an AUP engagement that a member needs to consider prior to its acceptance. Requiring formal consideration of these should assist in addressing any misunderstandings about the nature and scope of an AUP engagement.
48. Therefore the ED proposes, at paragraph 20, that a member also must not accept an engagement in the following circumstances:-
 - the member believes that the report of factual findings will not meet the needs of the intended users
 - circumstances indicate that the intended users are likely to construe the outcome of the engagement as providing an assurance opinion or conclusion about the subject matter.
 - the engagement has no rational purpose
 - the engagement contains all the elements of an assurance engagement⁴

⁴ The elements of an assurance engagement are listed in paragraph 26 of the NZAUASB's EG Au 1A *Framework for Assurance Engagements*).

- the circumstance of the engagement require the member to perform assurance related work such as determining the sufficiency of procedures to be performed, performing risk assessments, evaluate findings or reach conclusions.
49. As noted earlier, additional guidance on distinguishing agreed upon procedures engagements from other assurance engagements is contained in paragraphs A4-A8 and in Appendices 1 and 2 of the ED.
50. In light of the above, the ED follows these restrictions with additional requirements that ensure that the preconditions for an AUP engagement exist. The member is required to obtain agreement from management, those charged with governance and intended users (if appropriate) that they acknowledge and understand their responsibilities for:-
- determining the adequacy or otherwise of the procedures agreed to be performed (paragraph 21(a) of the ED)
 - ensuring that the report of factual findings they are seeking will meet their information needs (paragraph 21(b) of the ED)
 - providing the member with the access to information and personnel the member will need to conduct the engagement (paragraph 21(c) of the ED).
51. Commentary about member and user responsibilities is already explicit or implicit throughout the extant APS-1 because they are fundamental to the performance of an AUP engagement. For example paragraph 7 of extant APS -1 requires the responsibility of the client to provide access to information to be made clear prior to the performance of the engagement. However the proposed new obligations on members in this ED differ in several important respects as follows:
- while the stated purpose of the engagement is included as a matter the member needs to ensure both they and the client clearly understand in paragraph 7 of the extant APS-1, this purpose is not required to be 'rational' as is proposed in paragraph 20(e) of the ED.
 - there is a more explicit inclusion of 'intended users' in the engagement development process. As noted above, members are now required to obtain an understanding of the needs and objectives of all the intended users of the member's report, not just the needs of the member's client. AUP engagements that will not meet these needs cannot be accepted.
 - The requirement in extant APS-1 paragraph 9 that 'the member normally determines the scope of the agreed upon procedures in accordance with the terms of engagement agreed upon by the member and the client' is no longer appropriate. Since the responsibility for the sufficiency and appropriate nature of the procedures to be performed in an AUP engagement lies with the engaging party and the users, designing procedures is not work the member should perform (ITC paragraph 60).

Terms of Engagement

52. The importance of clarity around the nature and obligations contained in an AUP engagement makes it essential that the member agree the terms of the engagement with those involved. This should not only be with the engaging party, but with any intended user of the report of factual findings so that the report produced meets everyone's needs.

53. The extant APS-1 currently requires a member to ensure a clear understanding of the nature of the engagement exists between themselves, the client and the other intended users, but paragraph 7 of the extant APG-1 only 'recommends' the use of, and possible content for an engagement letter.
54. The ED proposes mandating the use of an engagement letter or other suitable written form to document the agreement, given how essential documenting this understanding of roles and responsibilities is to the success of the engagement. Supporting this mandate are more specific requirements on the expected content, which elevate the recommendations on key issues contained in extant APG-1 to standard level, extending them as needed. Additional paragraphs relate to
- the members' and the users' roles and responsibilities (in light of the discussion above),
 - an identification of the intended users of the report (see below)
 - a record of the ethical and independence requirements being applied (ITC paragraphs 28 and 33) and
 - a confirmation of the member's acceptance of the engagement.
55. The ED also proposes that all intended users should be signatories to the terms of engagement if this is practical. If not, these other intended users should be specifically identified and all other parties specifically excluded. This proposed requirement reflects the importance of their involvement to the achievement of the engagement's objectives as discussed in ITC paragraph 21.
56. An illustrative engagement letter is included in the ED as Appendix 3.

Questions for respondents

Engagement acceptance

7. Are the preconditions that must be satisfied before a member can accept an AUP engagement appropriate in the circumstances?
8. Is it appropriate to require the terms of an AUP engagement to be documented in written form and is the proposed additional content necessary?

Professional Judgement

57. Accepting an AUP engagement, as discussed in the foregoing paragraphs, requires a member to exercise professional judgement in the areas of :-
- considering the purpose of the AUP engagement and identifying the needs and objectives of those who will use the report of factual findings produced.
 - avoiding association with false or misleading information by ensuring users clearly understand the engagement's purpose and outcome and that members only accept engagements that are fit for purpose.
 - ensuring engagements can be performed by persons exhibiting professional competence and due care and in accordance with the relevant professional and ethical requirements

- ensuring the report issued describes the purpose and procedures in sufficient detail to ensure the users understand the nature and extent of the work performed.
58. However the ED of 'APS-1(revised)' proposes that professional judgement cannot extend to
- identifying risk areas (ITC paragraph 23)
 - providing opinions on the findings of an AUP engagement (ITC paragraph 13)
 - designing appropriate procedures for an AUP engagement (ITC paragraph 60)
59. These issues are outside the scope of an AUP engagement because they risk extending the member's work into the provision of assurance. If performed, the users of the engagement would be relying on the subjective views of the member to inform the work that has been required to be reported, rather than on their own assessment of their information needs.
60. Ensuring members do not exercise professional judgement around the scope of the engagement lies behind the ED's proposed requirement that the terms of engagement clearly specify the nature, timing and extent of the procedures to be performed. The member is only required to perform those procedures, not design procedures as is currently permitted by paragraph 9 of APS-1. This restriction does not prevent members advising users on the nature, extent and timing of the procedures that might be suitable. However, it does mean that the final decision as to what procedures are performed, and whether those procedures are sufficient and appropriate for their needs, is the responsibility of the users.
61. A further difference between the ED and the extant APS 1 occurs in situations where the engaging party requires alteration of the nature, timing or extent of the agreed procedures after the engagement commences. APS 1 Standard 5 *Planning* states that plans should be 'revised as necessary during the course of the engagement', a requirement which is inappropriate for an engagement where users have control over the procedures to be performed. Therefore, the ED proposes that the member must not perform alternative or additional procedures unless they are agreed with the engaging party in an amended terms of engagement. Such an agreement must occur before conducting such new procedures, reinforcing the fact that the responsibility for the design of procedures must lie with the engaging party or intended users, not the member.
62. Should any modifications extend to requiring the member to provide an opinion or conclusion on the subject matter, the nature of the engagement needs to change and, if appropriate, the applicable assurance standard applied. This is because the user would be relying on more than the professional competence and skill of the member in the performing of the procedures that give rise to the report of factual findings.
63. While the work the member performs under an AUP engagement is specified for them, this does not mean they can completely suspend professional judgement when carrying out the engagement. However this judgement now takes the form of ensuring that the engagement is conducted with professional competence and due care. Accordingly, the ED requires the member to plan the work specified in the terms of engagement to the extent that it is performed in an 'effective manner'.

Similar wording is already contained in extant APS-1 Standard 5 which requires planning to ensure the engagement is conducted in an 'efficient and timely manner.'

64. The main procedures that are appropriate to conduct in AUP engagement appearing in paragraph 8 of the extant APG-1 have been repeated in paragraph A15 of the ED. These procedures are inspection, observation, external confirmation, recalculation, re-performance and enquiry.
65. However, paragraph A15 does not include the 'analysis' procedure from extant APG-1 paragraph 8. Instead it introduces 'analytical procedures' but restricts the use of those to comparisons against expectations defined in the terms of engagement. This seeks to ensure that the member is not required to exercise any professional judgement in the performance of an AUP engagement. Doing so would change the nature of the engagement to one of an assurance nature for the same reasons as discussed in paragraph 62 above. The use of sampling as directed in paragraph 9 of the extant APG-1 has not been retained in the ED for the same reason.

Questions for respondents

Professional judgement

9. Do you agree that the member only exercises professional competence and skill in conducting the AUP engagement or is there also a need to exercise professional judgement and if so, in what areas?
10. Is it appropriate and practical to require changes to the procedures after an engagement has commenced to be the subject of a new engagement negotiation and agreement?

Quality Control and Documentation

66. The delivery of quality professional services to a client is a prime objective for members and firms. A robust quality control system provides a member with reasonable assurance that they are achieving that objective. NZICA Professional Standard PS-1 *Quality Control* (PS-1) sets out policies and procedures that are appropriate to the broad nature of engagements undertaken by members.
67. The extant APS 1 contains specific standards on important quality control related matters such as
- Standard 3 *Skills and competence*
 - Standard 4 *Work performed by assistants and others*
 - Standard 6 *Documentation*
68. The requirements contained in these three standards are more comprehensively covered in PS-1, which members are already required to comply with for any engagement they undertake. Therefore the ED proposes directing members performing AUP engagements to comply

with this familiar professional standard, thereby removing duplication and any inconsistencies between the two existing sets of requirements.

Question for respondents

Quality control and documentation

11. Will adherence to the quality control requirements in PS-1 *Quality Control* for an AUP engagement present any additional costs for members? Will these costs, if any, be passed on to the business community? Are there any matters relevant to AUP engagements that PS-1 does not adequately cover?

Reporting

Report restrictions

69. The procedures performed in an AUP engagement are dependent on the specific needs of the users and the engaging party. If others, who are unaware of the reasons underlying the engagement, obtain the report, they may misunderstand it and misinterpret the results. Therefore the ED, like extant APS-1 continues to require that the findings of the engagement are only to be reported to users who are knowledgeable as to the engagement and its subject matter (ITC paragraphs 38 to 42). This fact is also required to be explicitly stated in the report of factual findings given its fundamental importance (ITC paragraph 71).

Format of the report of factual findings

70. The reporting obligations in the ED are generally similar to those in the extant APS-1 Standard 8 '*Reporting*' (Standard 8) and supporting commentary in extant APG-1 paragraphs 10 - 11.
71. Key requirements of reports under both the proposed and revised standard ensure that the report :-
- describes the purpose of the engagement
 - describes the nature and extent of work performed
 - details the results of the procedures, including errors and exceptions found
 - is restricted to its intended users because others who are unaware of the reasons for the procedures may misinterpret the results.
72. The word 'evaluate' in Standard 8 is no longer used to describe the work involved in the preparation of the report of the factual findings because it could imply the formation of a conclusion which is not appropriate in an AUP engagement.
73. The requirements for the specific content of the report contained in paragraph 42 of the ED aligns with the content contained in extant APG-1 paragraph 11 with the exception of :-

- a requirement to state that the relevant ethical and independence requirements applying to the engagement have been complied with, and if independence has been modified, a description of the level of independence applied (paragraph 42(f) and no existing requirement in APS 1)
- a new statement that, had the member performed additional procedures, a reasonable assurance engagement or a limited assurance engagement, other matters might have come to the member's attention which could have been reported (paragraph 42(m)).
- a new requirement to detail procedures required by the terms of engagement that were not performed (paragraph 42(k))

74. The recommended wording in extant APG-1 paragraph 11 about the need to state that the report 'does not extend to the entity's financial statements as whole' has been removed on the basis that the foregoing clarifications of what has been performed make that clear. The wording expressing the responsibility for the engagement procedures has been modified to 'as the responsibility of the engaging party' rather than as being 'not the responsibility of the member'.

75. An illustrative report is included in Appendix 4 of the ED, modified to reflect these changes.

Impact of laws and regulations

76. The ED also proposes new requirements when laws and regulations impact the form and content of an AUP report. They require members to consider whether the required report wording could be misunderstood as providing assurance and if rewriting is possible to avoid that misunderstanding. If this is not possible then the member should not accept the engagement unless required by law or regulation to do so. In these circumstances, the report must not include any references to the work having been conducted in accordance with APS-1(revised).

Questions for respondents

Reporting

12. Is it appropriate and practical to restrict the report to those users who are party to the terms of engagement?
13. Does the report wording effectively communicate the nature and scope of the work performed by the member? Are there items that should be added or removed?
14. Is the guidance on dealing with engagements mandated under law or regulation with specified report formats appropriate?

Other matters

Multi scope Engagements

77. A 'Multi scope' engagements is one that generally combines reasonable assurance, limited assurance and AUP work as a means of best satisfying the user needs of various stakeholders. A growth in these types of engagements has accompanied a growth in AUP engagements worldwide, as discussed in the IAASB's recent DP on AUP engagements (ITC paragraph 9).
78. That DP sought feedback on how the IAASB should approach these types of engagements and when this work should be undertaken. A significant majority of respondents commented that extra guidance would be useful but that this work should not start until the revision to ISRS 4400 is complete.
79. The ED does not address these types of engagements, other than to require that if an AUP engagement is undertaken in parallel with an assurance engagement, reports on both must be presented separately (ED paragraph 40). This, and the greater clarity around the differences between both types of engagements contained in this standard, should assist members to when discussing their acceptance of, performing and reporting on multi scope engagements.

Question for respondents

Multiscope engagements

15. Does this standard need any additional guidance for members dealing with multi scope engagements that include an agreed upon procedures component?

Other matters

80. Appendix A to this ITC compares the requirements of extant APS-1 and APG-1 to the requirements of this ED, identifying areas where the current requirements were intended to have remained unchanged. Respondents are encouraged to review this

appendix and identify any concerns with the new requirements that have not been addressed in the foregoing discussion.

Question for respondents**Unaddressed issues**

16. Are there any areas you believe require additional guidance or other matters you wish to raise?



Engagement Standard

Agreed-Upon Procedures Engagements to Report Factual Findings

Issued by the Board of the New Zealand Institute of Chartered Accountants (NZICA)

Issued 10/92, Amended 02/03 and 07/13, (Proposed Reissue 08/18)

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Compliance with this standard is mandatory in terms of paragraph 130.1(b) of the Code of Ethics. This standard is to be read in conjunction with the Code of Ethics

PREFACE

Reasons for Issue

The New Zealand Institute of Chartered Accountants (NZICA) regulates New Zealand resident members of Chartered Accountants Australia and New Zealand (CA ANZ) under the New Zealand Institute of Chartered Accountants Act 1996 and the terms of the amalgamation agreement. The maintenance of the professional and ethical standards is an integral component of the NZICA's regulatory responsibilities.

NZICA is reissuing its existing Statement of Agreed Upon Procedures Engagement Standards 1 *Statement of Agreed-Upon Procedures Engagement Standards (APS-1)* to maintain appropriate professional standards for its New Zealand resident members when conducting engagements to perform agreed upon procedures. Compliance with this standard is mandatory in terms of paragraph 130.1(b) of the NZICA Code of Ethics.

Currently, the New Zealand Audit and Assurance Standards Board (NZAuASB), which develops New Zealand's auditing and assurance standards, has no mandate for the development of standards for non assurance engagements. An agreed upon procedures (AUP) engagement is one example of a non assurance engagement. The revision and reissue of APS-1 by NZICA ensures that an adequate, appropriate professional obligation for AUP engagements is in place until such time as the NZAuASB mandate is changed by legislation.

In revising APS-1, NZICA has followed the approach of the NZAuASB, whose standard setting activity adopts the standards of the International Auditing and Assurance Standards Board (IAASB), modified as necessary to reflect unique New Zealand conditions. Therefore, this ED has been developed with reference to the relevant International standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400). It has also been developed to conform, where appropriate, to the equivalent Australian standard ASRS 4400 *Agreed Upon Procedures Engagements to Report Factual findings* (ASRS 4400), which has been used with the permission of the Australian Auditing and Assurance Standards Board (AUASB). ASRS 4400 conforms to ISRS 4400 but has been more recently updated to reflect current best practice for AUP engagements. Maintaining consistency with ASRS 4400 also furthers the Trans-Tasman harmonisation obligations of the AUASB and NZAuASB.

Main Features

This Engagement Standard establishes mandatory requirements and provides application and other explanatory material for members when accepting, undertaking and reporting on engagements to perform agreed-upon procedures.

This Engagement Standard:

- (a) details ethical requirements, including independence, applicable to agreed-upon procedures engagements;
- (b) describes acceptance requirements for agreed-upon procedures engagements;
- (c) requires terms of the engagement to be agreed;
- (d) requires the member to plan the work;
- (e) specifies that the member does not perform a risk assessment and does not apply materiality;
- (f) describes quality control requirements;
- (g) describes requirements for using the work of others;
- (h) describes the documentation requirements;
- (i) requires the procedures to be performed when conducting the engagement to be limited to those agreed; and
- (j) describes the form and content of the report of factual findings.

New Zealand Institute of Chartered Accountants
ENGAGEMENT STANDARD
Agreed-Upon Procedures Engagements to Report Factual Findings
Issued by the Board of the New Zealand Institute of Chartered Accountants (NZICA)

Introduction

Purpose

1. The purpose of this Standard is to establish requirements and provide guidance to be followed by members when accepting, performing and reporting on an 'agreed upon procedures engagement'.

Application

2. This Standard applies to agreed-upon procedures engagements to be performed by a member, where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the member. The intended users draw their own conclusions based on the factual findings reported combined with any other information they have obtained.
3. Compliance with this Standard is mandatory in terms of paragraph 130.1(b) of the New Zealand Institute of Chartered Accountants (NZICA) Code of Ethics and failure to observe its requirements may expose a member to disciplinary action.

Scope

4. An agreed-upon procedures engagement involves the performance of procedures of an assurance nature from which no conclusion or opinion is expressed by the member, and no assurance is provided to intended users. Instead only factual findings obtained as a result of the procedures performed are reported.
5. A member may be asked to perform other types of engagements for which assurance is also not provided but in contrast to agreed-upon procedures engagements, the procedures conducted are not primarily of an assurance nature. These engagements are not dealt with in this Standard and include:
 - (a) consulting (or advisory) services;
 - (b) compilation engagements; and
 - (c) business services, such as accounting and taxation services.
6. The objective of consulting services is the provision of professional advice and recommendations with respect to the subject matter. The objective of compilation engagements is the presentation of financial information in a specified form. The objective of business services is the conduct of accounting procedures, computations or the provision of business or taxation advice. These engagements are not subject to the requirements of this Standard.

7. An agreed-upon procedures engagement is not an assurance engagement,⁵ even though similar procedures are performed, because the purpose of the procedures performed is not to obtain sufficient appropriate evidence on which to base a conclusion. In contrast, the sufficiency and appropriateness of the evidence obtained in an assurance engagement is based on the member's assessment of materiality and the risk of material misstatement or non-compliance. As the member does not assess materiality or engagement risk to determine the evidence gathering procedures to be performed in an agreed-upon procedures engagement, the member is unable to determine whether the evidence is sufficient and appropriate to reduce risk to an acceptable level as a basis for a conclusion.
8. This Standard addresses the member's professional responsibilities to accept agreed-upon procedures engagements to report factual findings only if:
 - (a) the member has the capabilities and competence to perform the procedures;
 - (b) assurance is not deemed to be necessary to meet the needs of intended users of the member's report;
 - (c) the member is not required to determine the sufficiency of the procedures to be performed;
 - (d) neither an assurance conclusion nor assurance opinion will be provided on the findings but the intended users may draw their own conclusions with respect to the subject matter; and
 - (e) each of the procedures to be performed is to be clearly specified in the engagement letter.
9. This Standard deals with the conduct of agreed-upon procedures engagements and identifies that risk assessment, responding to assessed risks, evaluation of evidence gathered and expressing a conclusion or opinion are aspects of an assurance engagement which are not performed when no assurance is to be provided.
10. An agreed-upon procedures engagement may be misunderstood as providing assurance, as the engagement is performed by a member and involves the conduct of the same or similar procedures to an assurance engagement. Assurance engagements are regulated by the New Zealand Auditing and Assurance Standards Board (NZAuASB) under delegated authority from the External Reporting Board. In explaining the nature of assurance engagements, paragraph 20 of EG Au1A *Framework for Assurance Engagements*, issued by the NZAuASB, states that 'a member reporting on an engagement that is not an assurance engagement within the scope of this Framework clearly distinguishes that report from an assurance report'. This Standard deals with the content of a report of factual findings in order to differentiate it from an assurance report.
11. This Standard deals with how the form, content and restrictions on use of a member's report of factual findings helps to minimise misinterpretation and promote the intended users' understanding of that report.

Effective Date

12. This standard is effective for agreed-upon procedures engagements commencing on or after 1 January 2019. Early adoption is permitted.

⁵ See the NZICA Code of Ethics which defines an 'assurance engagement' as 'an engagement in which a member 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 an underlying subject matter against criteria.'

Objective

13. The objective of the member in an agreed-upon procedures engagement is to apply their professional capabilities and competence in carrying out procedures of an assurance nature, to which the member, the engaging party and any third party intended user (as applicable) have agreed, and to report factual findings, without providing assurance or implying that assurance has been provided.

Definitions

14. For the purposes of this statement, the following terms have the meanings attributed below:
- (a) Engaging party - The party(ies) that engages the member to perform the agreed-upon procedures engagement.
 - (b) Intended users - The individual(s) or organisation(s), or groups thereof for whom the member prepares the report of factual findings.
 - (c) Procedures of an assurance nature - Procedures performed by a member which are the same or similar to procedures performed in an assurance engagement.

Requirements

Conduct of an Agreed-Upon Procedures Engagement

15. The member shall comply with this Standard and with the terms of the engagement agreed with the engaging party.

Ethical Requirements Relating to an Agreed-Upon Procedures Engagement

16. When conducting an agreed-upon procedures engagement, the member shall comply with ethical requirements equivalent to the ethical requirements applicable to 'Other Assurance Engagements'⁶. These include the independence requirements that are applicable for 'Reports that Include a Restriction on Use and Distribution' (see paragraph 291 paragraphs 21-27). Additional modifications to these independence requirements are permitted, provided the engaging party explicitly agrees to these modifications in the terms of the engagement.⁷ The modified independence requirements agreed to in the terms of the engagement, shall be described in the report of factual findings.⁸ (Ref: Para. A1)

Acceptance of an Agreed-Upon Procedures Engagement

17. The member shall obtain an understanding of the needs and objectives of the intended users, including a group of intended users, of the member's report of factual findings and the purpose for which that report will be used. (Ref: Para. A2-A3)
18. A regulator or representative of a group of users, industry or the accounting profession may specify the agreed-upon procedures to be performed to meet the needs of a group of intended users. In these circumstances, the member shall be satisfied that the needs of the group of users for whom the engagement is intended have been appropriately considered and addressed.
19. Before accepting an agreed-upon procedures engagement, the member shall determine that the persons who are to perform the engagement collectively have the appropriate competence and capabilities to perform the procedures.

⁶ The ethical requirements, including independence, applicable to *Other Assurance Engagements* are defined in the NZICA Code of Ethics and include paragraph 291- *Independence - Other Assurance Engagements*. These requirements align with those in the NZAuASB's Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners.

⁷ See paragraph 23(f) of this standard

⁸ See paragraph 42(f) of this standard.

20. The member shall not accept an agreed-upon procedures engagement if, in the professional judgement of the member :
- (a) the provision of factual findings alone which provide no assurance is unlikely to meet the needs of the intended users; or (Ref: Para. A3)
 - (b) the circumstances of the engagement indicate that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter; or
 - (c) use of the report of factual findings cannot be restricted to the engaging party and any intended users identified, due to legal requirements or other circumstances; or
 - (d) all of the elements of an assurance engagement⁹ are met (Ref: Para. A4-A6) ; or
 - (e) the engagement has no rational purpose; or
 - (f) the circumstances of the engagement indicate that it will be necessary for the member to do any of the following:
 - (i) determine the sufficiency of the procedures to be performed; (Ref: Para. A7)
 - (ii) perform a risk assessment in order to determine the procedures to be undertaken; (Ref: Para. A8)
 - (iii) evaluate the findings in order to determine the sufficiency and appropriateness of the evidence gathered; (Ref: Para. A8) or
 - (iv) reach a conclusion or form an opinion based on the evidence gathered. (Ref: Para. A8)
21. In order to establish whether the preconditions of an agreed-upon procedures engagement are present, the member shall obtain agreement from management, and, where appropriate, those charged with governance and intended users, that it acknowledges and understands its responsibility:
- (a) for determining the adequacy or otherwise of the procedures agreed to be performed;
 - (b) for determining whether the factual findings reported, in combination with any other information obtained, provide an appropriate basis for any conclusions which management or the intended users wish to draw on the subject matter;
 - (c) to provide the member with:
 - (i) access to all information of which management is aware that is necessary for the performance of the procedures agreed;
 - (ii) additional information that the member may request from management for the purpose of the engagement; and
 - (iii) unrestricted access to persons within the entity from whom the member requires co-operation in order to perform the procedures agreed.

Agreeing the Terms of the Agreed-Upon Procedures Engagement

22. The member shall agree the terms of the agreed-upon procedures engagement with the engaging party, and intended users who use the report.¹⁰ If the intended users of the report of factual findings are not signatories to the terms of the engagement, those intended users shall be identified in the terms of the engagement and all other parties shall be excluded from using the report. (Ref: Para. A9-A10)
23. The agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A11-A13)
- (a) the objective and scope of the engagement;
 - (b) confirmation of the member's acceptance of the appointment;

⁹ See paragraph 26 of EG Au1A *Framework for Assurance Engagements*, issued by the NZAuASB

¹⁰ See Appendix 3 of this standard for an example of an engagement letter for an agreed-upon procedures engagement.

- (c) the nature of the engagement, including a statement that the procedures performed will not constitute a reasonable or limited assurance engagement and that accordingly no assurance will be provided;
 - (d) a statement that intended users are expected to conduct their own assessment of the findings, combined with other information available to them and, if necessary, perform further procedures in order to obtain sufficient appropriate evidence on which to base any conclusion on the subject matter;
 - (e) the member's responsibilities to the engaging party and other specified parties;
 - (f) confirmation that the member will apply ethical requirements equivalent to those applicable for 'Reports that Include a Restriction on Use and Distribution' (see NZICA Code of Ethics paragraphs 291.21 - 27) or, if modified independence requirements have been agreed, the level of independence agreed;
 - (g) identification of the subject matter to which the procedures will be applied;
 - (h) the nature, timing and extent of the specific procedures to be performed;
 - (i) management's responsibilities;
 - (j) identification of the intended users of the report including those users who may not be party to the terms of the engagement, such as a group of users, regulator or bank;
 - (k) a statement that the use of the report of factual findings is restricted to the engaging party, who has agreed to the procedures to be performed, and the intended users identified; and
 - (l) reference to the expected form of any reports to be issued by the member, which may be illustrated by attaching to the engagement letter a draft of the report of factual findings that will be issued, omitting the factual findings.
24. The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the member will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed. (Ref: Para. A11)
25. When conducting an agreed-upon procedures engagement, if the member is unable to perform the exact nature, timing or extent of procedures agreed, but alternative procedures can be performed and the engaging party requires those procedures to be performed, then new terms of the engagement shall be agreed with the engaging party in writing.

Planning

26. The member shall plan the work so that the engagement will be performed in an effective manner, in accordance with the terms of the engagement and this Standard.
27. The engagement plan for an agreed-upon procedures engagement shall be restricted to the nature, timing and extent of procedures agreed in the terms of the engagement. The plan does not include alternative or further procedures unless agreed with the engaging party in amended terms of the engagement. (Ref: Para. A14)

Risk Assessment

28. The member does not perform a risk assessment for an agreed-upon procedures engagement, as the nature, timing and extent of procedures to be performed are agreed with the engaging party rather than determined by the member in response to assessed risks.

Materiality

29. The member does not apply materiality to designing the procedures to be performed nor to assessing the factual findings to determine whether the subject matter information is free

from material misstatement or non-compliance, as this is the responsibility of the intended users.

Quality Control

30. The member shall take responsibility for the overall quality of the agreed-upon procedures engagement and shall apply quality control procedures at both the firm and engagement level as set out in NZICA Professional Standard PS -1 *Quality Control (PS-1)*.
31. Throughout the engagement the member shall remain alert through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements including independence by members of the engagement team. If matters come to the members attention that indicate that members of the engagement team have not complied with the relevant ethical requirements the member shall determine the appropriate action
32. The member shall be satisfied that the engagement team,¹¹ and any experts engaged who are not part of the engagement team, collectively have the appropriate competence, capabilities and resources to perform the agreed-upon procedures in accordance with this Standard.

Using the Work of Others

33. The member shall take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings.
34. When the member uses the work of another member, an internal auditor or an expert, the member shall evaluate the adequacy of their work, including their objectivity and technical competence in conducting the procedures, whether the nature, timing and extent of procedures conducted agrees with procedures in the terms of the engagement and whether the factual findings communicated detail adequately the result of the procedures conducted.

Documentation

35. The member shall document:
 - (a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
 - (b) conclusions on compliance with independence requirements equivalent to those for 'Reports that Include a Restriction on Use and Distribution' (see NZICA Code of Ethics paragraph 291.21 - 27 or modified independence agreed;
 - (c) conclusions reached regarding the acceptance and continuance of client relationships and acceptance of the agreed-upon procedures engagement;
 - (d) the nature, timing and extent of procedures performed and the factual findings obtained, as identified in the agreed-upon procedures report; and
 - (e) evidence that the engagement was carried out in accordance with this Standard and the terms of the engagement.

Performing the engagement

¹¹ 'Engagement team' as defined by paragraph 15 of PS-1 *Quality Control* means all partners and staff performing the engagement and any individuals engaged by the firm or network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or network firm.

36. As no assurance is to be provided, the member shall carry out only the procedures agreed in the terms of the engagement and use the results of the procedures to provide a report of factual findings. (Ref: Para. A15-A16)
37. If the engaging party's requirements alter during the course of the engagement which require the member to draw conclusions from the findings, the terms of the agreed-upon procedures engagement cannot be extended to the provision of assurance. However, a new engagement may be agreed for the provision of assurance, if appropriate, to be conducted in accordance with applicable auditing, review or other assurance engagement standards issued by the NZAuASB.

Reporting

38. The member shall provide a report of factual findings for the agreed-upon procedures engagement. In contrast to an assurance report, a report of factual findings does not include an evaluation of those findings in order to draw a conclusion or form an opinion. (Ref: Para. A17)
39. The member shall not express a conclusion or opinion in an agreed-upon procedures engagement as the member has not performed a risk assessment, responded to assessed risks by determining the procedures to be performed or assessed whether sufficient appropriate evidence has been obtained as a reasonable basis for expressing a conclusion.
40. If the member is undertaking an agreed-upon procedures engagement in parallel with an assurance engagement, the factual findings from the agreed-upon procedures engagement shall be presented separately from the report on the assurance engagement.
41. Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.
42. The report of factual findings for an agreed-upon procedures engagement shall contain: (Ref: Para. A18-A19)
- (a) a title;
 - (b) an addressee (ordinarily the engaging party);
 - (c) identification of the specific information to which the procedures have been applied;
 - (d) a statement that the procedures performed were those agreed with the engaging party;
 - (e) a statement that the engagement was performed in accordance with APS 1(revised);
 - (f) a statement that either ethical requirements equivalent to those applicable for 'Reports that Include a Restriction on Use and Distribution' (see NZICA Code of Ethics paragraphs 291.21 - 27) have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied;
 - (g) identification of the purpose for which the agreed-upon procedures engagement was performed;
 - (h) a statement that the responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by the member is that of the engaging party;
 - (i) a listing of the specific procedures performed, detailing the nature, timing and extent of each procedure;
 - (j) a description of the member's factual findings in relation to each procedure performed, including sufficient details of errors and exceptions found;

- (k) identification of any of the procedures agreed in the terms of the engagement which could not be performed and why that has arisen;
 - (l) a statement that the procedures performed do not constitute either a reasonable or limited assurance engagement and, as such, no assurance is provided;
 - (m) a statement that had the member performed additional procedures, a reasonable assurance engagement or a limited assurance engagement, other matters might have come to the member's attention which would have been reported;
 - (n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement;
 - (o) a statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements, or other specified report, taken as a whole;
 - (p) the date of the report;
 - (q) the member's address; and
 - (r) the member's signature.
43. If the member is required by law or regulation to use a specific layout or wording for the report of factual findings, the report of factual findings shall refer to this standard only if the member's report includes, at a minimum, each of the elements in paragraph 42.
44. Law or regulation of the relevant jurisdiction may prescribe the layout or wording of the report of factual findings in a form or in terms which are significantly different from the requirements of this Standard. In these circumstances, the member shall evaluate:
- (a) whether intended users might misunderstand the factual findings reported and the fact that no assurance is provided; and, if so;
 - (b) whether additional explanation in the report of factual findings can mitigate possible misunderstanding.
- If the member considers that additional explanation in the report of factual findings cannot mitigate possible misunderstanding, the member shall not accept the engagement unless required by law or regulation to do so. As an agreed-upon procedures engagement conducted in accordance with such law or regulation does not comply with this Standard, the member shall not include any reference in the report of factual findings to the engagement having been conducted in accordance with APS-1 (revised). (Ref: Para. A20)
45. The member shall not issue modifications or an emphasis of matter in a report of factual findings, as no conclusion or opinion is expressed. Nevertheless, the following matters, if applicable, are reported as part of the factual findings:
- (a) errors or exceptions identified as a result of the procedures performed, regardless of whether they were subsequently rectified by the entity; and (Ref: Para. A21)
 - (b) the inability of the member to perform any of the agreed-upon procedures. (Ref: Para. A22)
46. The report of factual findings for an agreed-upon procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain:
- (a) a statement of compliance with standards issued by the NZAuASB;
 - (b) inappropriate use of the terms 'assurance', 'audit', 'review', 'opinion' or 'conclusion'; or
 - (c) any statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria.

Application and Other Explanatory Material

Ethical Requirements Relating to an Agreed-Upon Procedures Engagement (Ref: Para. 16)

- A1 Ethical requirements applicable to 'Other Assurance Engagements', permit the independence requirements to be modified if the intended users of the member's report are knowledgeable as to the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modified independence requirements.¹² In these circumstances, the report is to include a restriction on use to the intended users only. Since a 'restriction of use' statement must be included in the report of factual findings¹³ issued under this standard, the independence requirements in paragraphs 291.25 - 27.1 are applicable if the other preconditions about the users referred to above are met. These requirements do not include the independence requirements in paragraphs 291.100 -159 that are applicable to engagements for public interest entities. If further modifications are permitted by users and adopted in the terms of the engagement, but the intended users include a group of users who are not party to the terms of the engagement, they must be made aware of the modified independence requirements, such as by reference to them in the report of factual findings. In any case, the independence of the member and the engagement team will need to be assessed. An assessment of any material financial interests between the engaging party and the member's firm, and of any threats to independence posed by network firm interests or relationships) will also be required also be required (see paragraphs 291.26 - 27).

Acceptance of an Agreed-Upon Procedures Engagement (Ref: Para. 17-21)

- A2 The member needs to understand the engaging party's objectives in engaging the member to ensure that an engagement is agreed which is appropriate to those objectives and to avoid any misunderstandings with respect to the scope of the engagement.
- A3 In determining whether a report of factual findings is likely to meet the needs of intended users, or group of intended users, of the report, the member considers the purpose for which users intend to use the report. In doing so, the member does not take responsibility for the sufficiency of the agreed-upon procedures to be performed to meet the needs of intended users. If intended users are likely to be able to interpret the factual findings resulting from procedures performed, whether alone or in combination with other available evidence, to reach appropriate conclusions, then an engagement to report factual findings may be acceptable. If intended users are unlikely to be able to interpret the factual findings to reach appropriate conclusions, then the member does not accept an agreed-upon procedures engagement, but may accept an assurance engagement if appropriate.
- A4 An agreed-upon procedures engagement may be accepted if it satisfies some but not all of the elements of an assurance engagement,¹⁴ with the exception of a written assurance report, as that requires the provision of assurance.
- A5 If all of the elements of an assurance engagement are met,¹⁵ the member declines an agreed-upon procedures engagement, however an assurance engagement may be accepted if appropriate and applicable auditing, review or other assurance engagement standards issued by the NZAuASB are applied. Appendix 1 provides a table of *Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements* to assist the member in determining whether the engagement is an agreed-upon procedures engagement or an assurance engagement.
- A6 The extent of the subject matter does not affect whether an engagement is an assurance engagement or not. Even if the subject matter of an engagement is very specific, when

¹² See paragraphs 291.21-.27.1 of the NZICA Code of Ethics

¹³ See paragraphs 41 and 42(n)

¹⁴ For the elements of an assurance engagement, see paragraph 26 of EG Au1A, issued by the NZAuASB,

¹⁵ For the elements of an assurance engagement See paragraph 26 of EG Au1A, issued by the NZAuASB,.

the engagement contains the elements of an assurance engagement, the member complies with the requirements of either:

- (a) ISA (NZ) 805 (Revised), *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* when providing reasonable assurance on historical financial information other than a complete set of financial statements; or
- (b) ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* when providing reasonable or limited assurance on matters other than historical financial information.¹⁶

Example engagements are described in Appendix 2 illustrating how an engagement could be scoped as an agreed-upon procedures engagement or an assurance engagement for the same subject matter.

- A7 The member may assist the engaging party and intended users in determining the procedures to be performed to ensure that the procedures are able to be performed and are likely to meet the needs of the intended users. Nevertheless, the member is not responsible for the adequacy of the agreed-upon procedures nor for assessing whether the findings will be sufficient either alone or in combination with other evidence to support any conclusions which the users intend to draw. The member's role in an agreed-upon procedures engagement is to use their professional competence and capabilities in the performance of the agreed-upon procedures and to report the findings accurately.
- A8 If it is necessary for the member to perform a risk assessment, respond to assessed risks or evaluate the evidence gathered, then this indicates that the member is using their professional judgement to gather sufficient appropriate evidence to support a conclusion. In these circumstances, the engagement may be an assurance engagement and, if so, the relevant requirements in the auditing, review or other assurance engagement standards issued by the NZAuASB need to be applied.

Agreeing the Terms of the Agreed-Up on Procedures Engagement (Ref: Para. 22-25)

- A9 The agreed terms would ordinarily be recorded in an engagement letter or other suitable form of written agreement. It is in the interests of both the engaging party and the member that the terms of the engagement are agreed, in writing, by both, to help in avoiding misunderstandings with respect to the engagement. It is also preferable to complete this documentation of the terms of the engagement before the engagement commences.
- A10 In certain circumstances, for example when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the member may not be able to discuss the procedures with all the intended users who will use the report of factual findings. In such cases, the member may consider, for example, discussing the procedures to be applied with appropriate representatives of the intended users, reviewing relevant correspondence from such users or sending them a draft of the report of factual findings that will be issued.
- A11 In an agreed-upon procedures engagement, as the member does not express a conclusion, it is the engaging party's responsibility to determine the procedures which will provide sufficient appropriate evidence to support their own or intended users' conclusions. It is only appropriate for the member to select the procedures if they will be assessing the evidence to support a conclusion provided in an assurance engagement.
- A12 Not all intended users may be available to agree to the terms of the engagement or the agreed-upon procedures to be performed. These intended users may still be specified in the letter of engagement where the member is satisfied that those users will understand

¹⁶ See SAE 3100, *Compliance Engagements*, and SAE 3150, *Assurance Engagements on Controls*, as appropriate. Both are issued by the NZAuASB.

the purpose for which the report of factual findings is intended to be used. These intended users may include:

- (a) regulators or industry bodies which issue requirements for procedures to be performed and factual findings to be reported; and
- (b) an identifiable group of users which are intended to receive the report of factual findings for a specified purpose.

A13 An example of an engagement letter for an agreed-upon procedures engagement is set out in Appendix 3.

Planning (Ref: Para. 26-27)

A14 Planning in an agreed-upon procedures engagement is restricted by the nature, timing and extent of procedures as agreed in the terms of the engagement. Therefore, the member does not have the discretion to perform alternative or additional procedures without obtaining the engaging party's agreement. Nevertheless, the member will still need to plan the nature, timing and extent of the resources necessary to perform the engagement.

Performing the Engagement (Ref: Para. 36-37)

A15 The procedures applied in an engagement to perform agreed-upon procedures may include:

- a. inspection;
- b. observation;
- c. external confirmation;
- d. re-calculation;
- e. re-performance;
- f. analytical review procedures, where those procedures are based solely on comparison against expectations defined in the terms of the engagement; and
- g. enquiry.

A16 Analytical procedures are not performed in an agreed-upon procedures engagement unless the engaging party provides an expectation of recorded amounts or ratios on which the member may base the analytical procedures. The engaging party's expectations are defined in the procedures described in the terms of the engagement. It is necessary for the engaging party to provide the expectations as a basis for the analytical procedures so that the member does not use their professional judgement to develop expectations, which is only appropriate when conducting an assurance engagement. The member does not interpret the findings from the analytical procedures but simply presents the findings against the expectations provided by the engaging party.

Reporting (Ref: Para. 38-46)

A17 Even though assurance is not provided by the member, the intended users are entitled to rely on the accuracy of the reported findings by virtue of the member's capabilities and competence in conducting the agreed-upon procedures.

A18 The report of factual findings describes the procedures performed and findings in sufficient detail to enable the intended users to understand the nature, timing and extent of the work performed as well as the nature of the errors and exceptions identified in order to assess the findings reported and draw their own conclusions on the subject matter. In order to draw conclusions, intended users may need to assess the factual findings along with information from other sources. Intended users will need to satisfy themselves that the evidence, which the report of factual findings and other sources

provide, is sufficient and appropriate to provide a basis for any conclusion which they may reach.

- A19 An illustrative report of factual findings, incorporating the elements set forth in paragraph 42, is set out in Appendix 4.
- A20 If law or regulation prescribes the layout or wording of the member's report in a form or in terms that are significantly different from the requirements of this Standard and an additional explanation cannot mitigate possible misunderstanding, in addition to excluding any reference to this standard in the report, the member may consider including a statement that the agreed-upon procedures engagement is not conducted in accordance with this Standard.
- A21 If the member is aware that an error or exception identified has been substantially rectified, the fact that it has been rectified may be included in the report.
- A22 The member's inability to perform the agreed-upon procedures may arise from:
- (a) circumstances beyond the control of the engaging party;
 - (b) circumstances relating to the nature or timing of the member's work; or
 - (c) limitations imposed by management of the engaging party.

Appendix 1

Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements

(Ref: Para. A5)

Differentiating Factor	Agreed-Upon Procedures Engagement	Assurance Engagement
Nature, timing and extent of procedures the responsibility of:	Engaging party	Assurance practitioner
Nature, timing and extent of procedures determined in:	Terms of the engagement	Engagement plan
Changes to the nature, timing and extent of procedures are documented in:	Terms of the engagement	Engagement plan
Extent of member's professional judgement exercised in selecting procedures:	Professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence is exercised when conducting the agreed-upon procedures.	Professional judgement exercised in selecting procedures
Sufficiency and appropriateness of evidence assessed by:	Intended user	Assurance practitioner
Form and content of report:	Factual findings, no conclusion or assurance provided	Conclusion providing assurance
Reporting of procedures performed:	Detail of the exact nature, timing and extent of all procedures performed are reported	Summary of work performed
Reporting of findings:	Detail of exact findings resulting from each procedure performed, including errors and exceptions identified, even if rectified.	No detail of findings, unless a modified report is to be issued when the basis for modification is provided or if a management letter is provided in addition to the assurance report.

Appendix 2

Examples of Differences in Scope between an Agreed-Upon Procedures Engagement and an Assurance Engagement (Ref: Para. A6)

The following brief descriptions of engagements are intended to illustrate that engagements relating to the same subject matter may be scoped in the terms of the engagement as an agreed-upon procedures engagement providing no assurance or an assurance engagement depending on the needs of the engaging party and intended users. The scope provided in each of the following examples, which would be reflected in the terms of the engagement, is to be used as a guide only and will need to be adapted to the individual engagement requirements and circumstances.

Nature of Engagement	Purpose of Engagement	Scope of an Agreed-Upon Procedures Engagement	Scope of an Assurance Engagement
1. Turnover lease agreement	To assist parties to a lease agreement based on turnover in assessing compliance with the agreement.	<ul style="list-style-type: none"> • Agree gross turnover to underlying data; • Recalculate adjusted turnover based on agreed formula; and • Recalculate the turnover rent payable under the lease agreement. 	Audit/review compliance with the turnover lease agreement to provide a reasonable/limited assurance conclusion as to whether the entity has complied, in all material respects, with the lease agreement over the period.
2. Management agreement	To assist the directors of each entity to fulfil their reporting requirements under management agreements with the managing entity.	<ul style="list-style-type: none"> • Agree specified data from entities' income statements to the entities' trial balances, parent entity consolidation schedule and audited consolidated financial report. 	Audit/review compliance with the reporting requirements of the management agreement to provide a reasonable/limited assurance conclusion as to whether each entity has complied, in all material respects, with the management agreement over the period.
3. Leave provisions	To assist management assessment of whether leave provisions were calculated in accordance with corporate policy as a basis for negotiating the consideration for transferring staff.	<ul style="list-style-type: none"> • Agree start date and employment terms for a random sample of X staff to employment contracts. • Agree leave taken to employee records. • Recalculate long service leave and annual leave provisions for X staff to be transferred as part of a novation agreement. 	Audit/review employee leave provisions to provide a reasonable/limited assurance conclusion as to whether leave balances are calculated, in all material respects, in accordance with corporate policy.
4. Loan securitisation	To assist the engaging party and potential investors in determining the data on which to base the	<ul style="list-style-type: none"> • Select X loans based on criteria provided by the engaging party. 	Audit/review the loan pool to provide a reasonable/limited assurance conclusion as to whether the loan pool

	securitisation of a pool of loans.	<ul style="list-style-type: none"> • Agree specified loan data to supporting documentation and check loan data against given criteria. • Recalculate total loan pool data. 	is reported, in all material respects, in accordance with the agreed basis.
5. Stocktake procedures	To assist management in determining the value of stock on hand.	<ul style="list-style-type: none"> • Attend X sites randomly selected, test count X randomly selected stock items to stock count sheets. • Trace those stock count sheets to summary stock data. • Agree X randomly selected stock items to inventory account and agree cost to supplier invoices. 	Audit/review stock at period end to provide a reasonable/limited assurance conclusion as to whether stock is valued fairly, in all material respects, in accordance with corporate policy.
6. Debtors' balances	To assist management in identifying issues in debtors' collection.	<ul style="list-style-type: none"> • Agree aged debtors to the trial balance at period end. • Agree the largest (at period end) X debtors to sales invoices. • Trace X randomly selected debtor balances to subsequent receipts. • Itemise bad debt written off for the period with explanations provided by management. • Itemise customers on stop supply or COD. • Determine value and number of credit notes for the period. • Calculate debtors ageing percentages at period end. 	Audit/review debtors and provision for doubtful debts to provide a reasonable/limited assurance conclusion as to whether debtors and provision for doubtful debts are presented fairly, in all material respects, in accordance with the agreed basis of accounting.
7. Controls to meet contractual obligations	To assist client in completing their certificate of compliance with respect to confidentiality and privacy agreements, in circumstances where data supplied by providers under confidentiality and privacy agreements requiring controls to protect data.	<ul style="list-style-type: none"> • Agree list of users with access to restricted data for any part of the reporting period to signed confidentiality statements. • Agree individual confidentiality statements to confidentiality agreement. • Identify confidentiality training held over reporting period, 	Audit/review controls in place to comply with confidentiality and privacy agreements in order to provide a reasonable/limited assurance conclusion as to whether the description fairly presents the controls, the controls are suitably designed and operating effectively throughout the reporting period.

		<p>percentage of users attended and average hours training attended per user.</p> <ul style="list-style-type: none">• Trace data access log for X days, spread throughout the period, to list of approved users.	
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Appendix 3

Example of an Engagement Letter for an Agreed-Upon Procedures Engagement

(Ref: Para. A13)

The following is an example of an engagement letter for an agreed-upon procedures engagement prepared in accordance with proposed APS-1(revised). This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Standard. It will need to be varied according to individual requirements and circumstances of each engagement. It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of management or those charged with governance¹⁷ of name of Entity [and name of other intended users or group of users as appropriate]:

[The objective and scope of the engagement]

You have requested that we perform the agreed-upon procedures specified below [as required by [name of representative of group of intended users or regulator] to meet the needs of [group of intended users]]. We are pleased to confirm our acceptance and understanding of this agreed-upon procedures engagement and the nature and limitations of the procedures we will conduct. Our engagement will be conducted with the objective of reporting factual findings resulting from each procedure for the purpose of [specify purpose]. The procedures performed will not constitute a reasonable or limited assurance engagement, accordingly, no assurance will be provided.

[The responsibilities of the member]

We will conduct our engagement in accordance with the New Zealand Institute of Chartered Accountants Engagement standard APS-1 (revised) *Agreed-Upon Procedures Engagements to Report Factual Findings*. That standard requires that we comply with ethical requirements equivalent to Other Assurance Engagements,¹⁸ [including independence/ except with respect to independence for which modified independence requirements will be applied], and plan and perform the agreed procedures to obtain factual findings. [If applicable: We will apply modified independence requirements¹⁹ agreed with you, which will consist of (describe level of independence to be applied).] The procedures which we will perform will be restricted to those procedures agreed with you [which include procedures required by [name of representative of group of intended users or regulator]] and listed below. Information acquired by us in the course of our engagement is subject to strict confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent.

We have agreed to perform the following procedures and report to you the factual findings resulting from our work:

[describe the nature, timing and extent of each procedure to be performed, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.]

¹⁷ ‘Those charged with governance’ means the person(s) or organisation(s) (for example a corporate trustee) with responsibility for overseeing the strategic direction of the entity. This includes overseeing the financial reporting process. For some entities, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

¹⁸ See paragraph 291 of the NZICA Code of Ethics)

¹⁹ See paragraph 291.21 of the NZICA Code of Ethics. Modified independence requirements are only permitted under the ethical requirements applicable to *Other Assurance Engagements* if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence requirements.

If we are unable to perform the exact nature, timing or extent of procedures agreed above but alternative procedures are available, we will only perform these alternative procedures if modified terms of the engagement are agreed with [name of entity and other intended users].

[The responsibilities of management or those charged with governance and intended users (if appropriate)]

Our agreed-upon procedures will be performed on the basis that [management and, where appropriate, those charged with governance and intended users] acknowledge and understand that:

- (a) they have responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by us;
- (b) they have responsibility for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or the intended users wish to draw on the subject matter;
- (c) they have responsibility to provide us with:
 - (i) access to all information of which management is aware that is necessary for the performance of the procedures agreed;
 - (ii) additional information that we may request from you for the purpose of the engagement; and
 - (iii) unrestricted access to persons within the entity from whom we require co-operation in order to perform the procedures agreed.
- (d) the procedures we will perform are solely to assist you [and name of intended users] in [state purpose]. Our report of factual findings is not to be used for any other purpose and is solely for your [and name of intended users] information.
- (e) the procedures that we will perform will not constitute a reasonable or limited assurance engagement in accordance with auditing, review or other assurance engagement standards issued by the New Zealand Auditing and Assurance Standards Board and, consequently, no assurance will be provided.

We look forward to full co-operation with your staff during our engagement.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms as appropriate]

[Reporting]

Our report of factual findings will consist of a detailed listing of the procedures performed and our findings in relation to each procedure, including any errors or exceptions identified regardless of whether those errors or exceptions have since been rectified. Use of our report will be restricted to you [and [name of other intended users or group of users]] and all other parties will be excluded from using the report.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our agreed-upon procedures engagement including the specific procedures which we have agreed will be performed and our respective responsibilities.

Yours faithfully,

.....

Partner

XYZ & Co

Acknowledged on behalf of [name of Entity] by

(signed)

.....

Name and Title

Date

[Acknowledged on behalf of [name of Intended User] by

(signed)

.....

Name and Title

Date]

Appendix 4

Example of a Report of Factual Findings in Connection with Accounts Payable

(Ref: Para. A19)

REPORT OF FACTUAL FINDINGS

To [appropriate addressee]

Report of Factual Findings

We have performed the procedures agreed with you and [name of any intended users party to the terms of the engagement] to report factual findings for the purpose of assisting you [and [name of other intended users or group of intended users]] in assessing, in combination with other information obtained by you, the accuracy of accounts payable as at [date]. The procedures performed are detailed in the terms of the engagement of [date] and described below [(or if appropriate) set forth in the attached schedules]²⁰ with respect to the accounts payable of [entity] as of [date].

[Management / Those Charged with Governance]'s Responsibility for the Procedures Agreed

[Management / Those Charged with Governance and any intended users party to the terms of the engagement] are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You and [name of other intended users or group of intended users] are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

Member's Responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with the New Zealand Institute of Chartered Accountants Engagement Standard APS-1(revised) *Agreed-Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements,²¹ [including independence/ except that we applied modified independence requirements as agreed with you in the terms of the engagement consisting of (describe level of independence applied)].

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with auditing, review or other assurance engagement standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB), we do not express any conclusion and provide no assurance on the accounts payable of [entity] as of [date]. Had we performed additional procedures or had we performed an audit or a review of the accounts payable in accordance with auditing, review or other assurance engagement standards issued by the NZAuASB, other matters might have come to our attention that would have been reported to you.

*Factual Findings*²²

The procedures were performed solely to assist you in evaluating the accuracy of the accounts payable. The procedures performed and the factual findings obtained are as follows:

²⁰ If schedules are attached, describe and reference the schedules (not shown in this example).

²¹ See paragraph 291 of NZICA Code of Ethics.

²² The member may choose instead to present the table of factual findings as an attachment to the report, particularly if it is lengthy.

Procedures Performed	Factual Findings	Errors or Exceptions Identified
1. We obtained and checked the addition of the trial balance of accounts payable as at [date] prepared by [entity], and we compared the total to the balance in the related general ledger account.	We found the addition to be correct and the total amount to be in agreement.	None
2. We compared the attached schedule (not shown in this example) provided by [entity] of major suppliers and the amounts owing at [date] to each of the related names and amounts in the trial balance.	We found the amounts compared to be in agreement, except for the exceptions noted.	<i>[Detail the exceptions]</i>
3. For X suppliers randomly selected from the attached schedule we obtained suppliers' statements or requested suppliers to confirm balances owing at [date].	We found there were suppliers' statements for all such suppliers.	None
4. We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from [entity]. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and payments, each of which was greater than \$XXX. We agreed outstanding invoices over \$XXX for suppliers selected to accounts payable for the subsequent period, invoices subsequently received and either credit notes or payment made.	We found the amounts agreed, or with respect to amounts which did not agree, we found [entity] had prepared reconciliations and that the credit notes, invoices and payments over \$XXX as agreed to reconciling items unless exceptions noted.	<i>[Detail exceptions]</i>

[The following procedures included in the terms of the engagement could not be performed for the reasons set out below:]²³

[Procedure Unable to be Performed]	[Reasons Procedure was Unable to be Performed]
<i>[Detail procedure in terms of the engagement]</i>	<i>[Detail reasons]</i>

²³ Insert this table where there has been a limitation of scope such that certain procedures could not be performed.

Restriction on Use of Report

This report is intended solely for the use of [entity] and [intended users identified in the terms of the engagement] for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by APS-1, use of this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [company full name, name of intended users and name of group of users] for any consequences of reliance on this report for any purpose.

[Member's signature]

[Date of the report of factual findings]

[Member's address]

Conformity with International Standards on Related Services

Except as noted below, the ED of Engagement Standard APS-1(revised) *Agreed-Upon Procedures Engagements to Report Factual Findings* conforms to International standard ISRS 4400, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC). The main differences between the ED of APS -1(revised) and ISRS 4400 are:

- APS-1(revised) is not limited to procedures regarding 'financial information', whereas ISRS 4400 is limited to financial information. (Ref: Para. 4)
- APS-1(revised) applies to 'procedures of an assurance nature' whereas ISRS 4400 applies to 'procedures of an audit nature'. Whilst the terms differ, they can be taken to have the same meaning as indicated by the procedures listed in ISRS 4400, paragraph 16, which are equivalent to those listed in APS-1(revised) paragraph A15. (Ref: Para. 4 & 13)
- APS-1(revised) applies to the 'member', whereas ISRS 4400 applies to the 'auditor'. Whilst the terms differ, they can be taken to have a similar meaning, referring to a suitably qualified professional. (Ref: Para. 1)
- Many users of agreed upon procedures reports obtain benefit from the credibility that their preparation by an independent member (not just a skilled and competent one) gives them. However independence is not an essential ethical requirement because the member is not providing an opinion. Therefore this standard imposes a minimum level of independence (that is applicable to '*Other assurance engagements*' for '*Reports that Include a Restriction on Use and Distribution*' (see NZICA Code of Ethics paragraphs 291.25- 291.27). This level is less onerous than that required for audits or reviews of financial reports but is consistent with those requirements, offering a familiar benchmark. However it also permits user to reduce this level of independence if that is appropriate to their need and to disclose in the report of factual findings if modified independence requirements are agreed. ISRS 4400 does not require the auditor to be independent, but requires the auditor to state in the report of factual findings if they are not independent. (Ref: Para. 16)
- APS-1(revised) includes requirements, which are additional to those contained in ISRS 4400, for the member to:
 - understand the needs and objectives of the intended users; (Ref: Para. 17)
 - satisfy themselves that a regulator or representative of a group of users, industry or the accounting profession does represent the group of users for whom the engagement is intended; (Ref: Para. 18)
 - only accept the engagement if those persons who are to perform the engagement collectively have the capabilities and competence to perform the procedures; (Ref: Para. 19)
 - not accept an agreed-upon procedures engagement if: (Ref: Para. 20)
 - it is unlikely to meet the needs of intended users;
 - users are likely to construe the outcome as providing assurance;
 - all of the elements of an assurance engagement are met;
 - the engagement has no rational purpose; or
 - the member needs to determine the sufficiency of procedures to be performed, perform a risk assessment, evaluate the sufficiency and appropriateness of the evidence or reach a conclusion;
 - state in the terms of the engagement that intended users are responsible for reaching any conclusions on the subject matter; (Ref: Para. 21)
 - not exercise professional judgement to determine or modify the procedures to be performed during the course of the engagement; (Ref: Para. 24)
 - request amended terms of the engagement if alternative or further procedures are to be performed; (Ref: Para. 25)
 - limit planning to the procedures agreed in the terms of the engagement; (Ref: Para. 27)
 - not perform a risk assessment; (Ref: Para. 28)
 - not apply materiality to design procedures nor to assess factual findings; (Ref: Para. 29)

- take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings and, when using the work of others, evaluate the adequacy of their work and the findings communicated; (Ref: Para. 33-34)
- document matters with respect to compliance with ethical requirements, including independence, acceptance and continuance of client relationships and acceptance of the engagement; (Ref: Para. 35)
- not extend the terms of engagement to the provision of assurance; (Ref: Para. 37)
- not evaluate the findings or provide a conclusion or opinion; (Ref: Para. 38)
- state in the report of factual findings that the responsibility for determining the adequacy of the agreed-upon procedures is that of the engaging party; (Ref: Para. 42(h))
- not issue a modified report or emphasis of matter, but instead report all errors or exceptions in the factual findings, even if they are subsequently rectified, or the inability to perform any of the agreed-upon procedures; and (Ref: Para. 45)
- exclude wording from the report of factual findings which may indicate that assurance is being provided. (Ref: Para. 46)

Compliance with this Standard enables compliance with ISRS4400.

ITC Appendix A - Table of Differences between APS-1(revised) and APS-1 and APG-1

(This table is for information only and does not form part of the ED of APS-1(revised))

Underlying standards – the ED of APS-1(revised) has been developed using the requirements of Australian Standard ASRS 4400 *Agreed Upon Procedures Engagements to Report Factual findings* and International Standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

Differences –the table below details how the requirements and guidance in APS-1 and APG-1 have been revised in developing the ED of APS-1(revised)

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
1	The purpose of this Standard is to establish requirements and provide guidance to be followed by members when accepting, performing and reporting on an 'agreed upon procedures engagement.	No explicit reference made restricting to either financial or non-financial information. Extant APS-1 applies to financial information but its application to non-financial information is permitted (see extant APS-1 paragraph 4) so no effective change
2	This Standard applies to agreed-upon procedures engagements to be performed by a member, where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the member. The intended users draw their own conclusions based on the factual findings reported combined with any other information they have obtained.	No change – see paragraph 6 of extant APS-1
3	Compliance with this Standard is mandatory in terms of paragraph 130.1(b) of the New Zealand Institute of Chartered Accountants Code of Ethics and failure to observe its requirements may expose a member to disciplinary action.	No change
4	An agreed-upon procedures engagement involves the performance of procedures of an assurance nature from which no conclusion or opinion is expressed by the member and no assurance is provided to intended users. Instead only factual findings obtained as a result of the procedures performed are reported.	No change – see paragraph 6 of extant APS-1.
5	A member may be asked to perform other types of engagements for which assurance is also not provided but in contrast to agreed-upon procedures engagements, the procedures conducted are not primarily of an assurance nature. These engagements are not dealt with in this Standard and include: <ul style="list-style-type: none"> a) consulting (or advisory) services; b) compilation engagements; and c) business services, such as accounting and taxation services. 	New commentary for the purpose of clarifying the nature of an AUP engagement

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
6	The objective of consulting services is the provision of professional advice and recommendations with respect to the subject matter. The objective of compilation engagements is the presentation of financial information in a specified form. The objective of business services is the conduct of accounting procedures, computations or the provision of business or taxation advice. These engagements are not subject to the requirements of this Standard.	New commentary for the purpose of clarifying the nature of an AUP engagement
7	An agreed-upon procedures engagement is not an assurance engagement, even though similar procedures are performed, because the purpose of the procedures performed is not to obtain sufficient appropriate evidence on which to base a conclusion. In contrast, the sufficiency and appropriateness of the evidence obtained in an assurance engagement is based on the member's assessment of materiality and risk of material misstatement or non-compliance. As the member does not assess materiality or engagement risk to determine the evidence gathering procedures to be performed in an agreed-upon procedures engagement, the member is unable to determine whether the evidence is sufficient and appropriate to reduce risk to an acceptable level as a basis for a conclusion.	See extant APS-1 paragraph 7 but expanded commentary for the purpose of clarifying the nature of an AUP engagement
8	<p>This Standard addresses the member's professional responsibilities to accept agreed-upon procedures engagements to report factual findings only if:</p> <ul style="list-style-type: none"> a) the member has the capabilities and competence to perform the procedures; b) assurance is not deemed to be necessary to meet the needs of intended users of the member's report; c) the member is not required to determine the sufficiency of the procedures to be performed; d) neither an assurance conclusion nor assurance opinion will be provided on the findings but the intended users may draw their own conclusions with respect to the subject matter; and e) each of the procedures to be performed is to be clearly specified in the engagement letter 	<ul style="list-style-type: none"> a) Equivalent requirement is extant APS-1 Standard 3 b) Equivalent requirement in extant APS-1 paragraph 6 c) Equivalent requirement in extant APS-1 paragraph 9 (but ED requires that the member should not take responsibility for the scope of the procedures performed which this paragraph permits) d) Equivalent requirement in extant APS-1 paragraph 8.2 e) Equivalent requirement in extant APS-1 paragraph 10 and extant APG-1 paragraphs 6 and 7 (but they do not make a letter mandatory)
9	This Standard deals with the conduct of agreed-upon procedures engagements and identifies that risk assessment, responding to assessed risks, evaluation of evidence gathered and expressing a conclusion or opinion are aspects of an assurance engagement which are not performed when no assurance is to be provided.	New requirement added for clarity in distinguishing an AUP and an assurance engagement

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
10	An agreed-upon procedures engagement may be misunderstood as providing assurance, as the engagement is performed by a member and involves the conduct of the same or similar procedures to an assurance engagement. Assurance engagements are regulated by the New Zealand Auditing and Assurance Standards Board (NZAuASB) under delegated authority from the External Reporting Board. In explaining the nature of assurance engagements paragraph 20 of EG Au1A <i>Framework for Assurance Engagements</i> , issued by the NZAuASB, states 'a member reporting on an engagement that is not an assurance engagement within the scope of this Framework clearly distinguishes that report from an assurance report'. This Standard deals with the content of a report of factual findings in order to differentiate it from an assurance report.	Equivalent requirement in extant APS-1 paragraph 8.3
11	This Standard deals with how the form, content and restrictions on use of a member's report of factual findings helps to minimise misinterpretation and promote the intended users' understanding of that report.	Equivalent requirement in extant APS-1 paragraph 8.2
12	This Standard is effective for agreed-upon procedures engagements commencing on or after 1 October 2018. Early adoption is permitted.	
13	The objective of the member in an agreed-upon procedures engagement is to apply their professional capabilities and competence in carrying out procedures of an assurance nature, to which the member, the engaging party and any third party intended user (as applicable) have agreed, and to report factual findings, without providing assurance or implying that assurance has been provided.	More explicit reference to engaging party and users, rather than 'client' as the source of the engagement
14	Definitions of <ul style="list-style-type: none"> engaging party - means the party(ies) that engages the member to perform the agreed-upon procedures engagement intended users - means the individual(s) or organisation(s), or class (es) thereof for whom the member prepares the report of factual findings. Procedures of an assurance nature means procedures performed by a member which are the same or similar to procedures performed in an assurance engagement. 	Not defined in extant APS-1
15	The member shall comply with this Standard and with the terms of the engagement agreed with the engaging party.	No change – see extant APS-1
16	When conducting an agreed-upon procedures engagement, the member shall comply with ethical requirements equivalent to the ethical requirements applicable to 'Other Assurance Engagements'. These include the independence requirements that are applicable for 'Reports that Include a Restriction on Use and Distribution' (see paragraphs 291.21-27). Additional modifications to these independence requirements are permitted provided the engaging party explicitly agrees to these modifications in the terms of the engagement. The modified independence requirements agreed to in the terms of the engagement, shall be described in the report of factual findings. (Ref: Para. A1)	Specific ethical requirements in extant APS-1 Standards 1, 2 and 3 replaced by reference to the NZICA Code of Ethics. Modified independence requirements included which may be reduced further by users.

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
17	The member shall obtain an understanding of the needs and objectives of the intended users, including a class of intended users, of the member's report of factual findings and the purpose for which that report will be used. (Ref: Para. A2-A3)	More explicit requirements around understanding the nature and expectations of the engagement and particularly the needs of users
18	A regulator or representative of a class of users, industry or the accounting profession may specify the agreed-upon procedures to be performed to meet the needs of a class of intended users. In these circumstances, the member shall be satisfied that the needs of the class of users for whom the engagement is intended have been appropriately considered and addressed.	More explicit requirements around understanding the nature and expectations of the users to the engagement, not just the client
19	Before accepting an agreed-upon procedures engagement, the member shall determine that the persons who are to perform the engagement collectively have the appropriate competence and capabilities to perform the procedures.	No change - extant APS-1 Standard 3
20	<p>The member shall not accept an agreed-upon procedures engagement if, in the professional judgement of the member :</p> <ul style="list-style-type: none"> a) the provision of factual findings alone which provide no assurance is unlikely to meet the needs of the intended users; or (Ref: Para. A3) b) the circumstances of the engagement indicate that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter; or c) use of the report of factual findings cannot be restricted to the engaging party and any intended users identified, due to legal requirements or other circumstances; or d) all of the elements of an assurance engagement are met; or (Ref: Para. A4-A6) e) the engagement has no rational purpose; or f) the circumstances of the engagement indicate that it will be necessary for the member to do any of the following: <ul style="list-style-type: none"> i. determine the sufficiency of the procedures to be performed; (Ref: Para. A7) ii. perform a risk assessment in order to determine the procedures to be undertaken; (Ref: Para. A8) iii. evaluate the findings in order to determine the sufficiency and appropriateness of the evidence gathered; (Ref: Para. A8) or iv. reach a conclusion or form an opinion based on the evidence gathered. (Ref: Para. A8) 	More explicit obligations regarding engagement acceptance tied to understanding the nature of the engagement
21	<p>In order to establish whether the preconditions of an agreed-upon procedures engagement are present, the member shall obtain agreement from management, and, where appropriate, those charged with governance and intended users, that it acknowledges and understands its responsibility:</p> <ul style="list-style-type: none"> a. for determining the adequacy or otherwise of the procedures agreed to be performed; b. for determining whether the factual findings reported, in combination with any other information obtained, provide an appropriate basis for any conclusions which management or the intended users wish to draw on the subject matter; 	More explicit obligations regarding engagement acceptance tied to understanding the nature of the engagement

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
	<p>c. to provide the member with:</p> <ul style="list-style-type: none"> i. access to all information of which management is aware that is necessary for the performance of the procedures agreed; ii. additional information that the member may request from management for the purpose of the engagement; and iii. unrestricted access to persons within the entity from whom the member requires co-operation in order to perform the procedures agreed. 	
22	<p>The member shall agree the terms of the agreed-upon procedures engagement with the engaging party, and intended users who use the report. If the intended users of the report of factual findings are not signatories to the terms of the engagement, those intended users shall be identified in the terms of the engagement and all other parties shall be excluded from using the report. (Ref: Para. A9-A10)</p>	<p>More explicit identification of users to whom the report is restricted.</p>
23	<p>The agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A11-A13)</p> <ul style="list-style-type: none"> a. the objective and scope of the engagement; b. confirmation of the member's acceptance of the appointment; c. the nature of the engagement, including a statement that the procedures performed will not constitute a reasonable or limited assurance engagement and that accordingly no assurance will be provided; d. a statement that intended users are expected to conduct their own assessment of the findings, combined with other information available to them and, if necessary, perform further procedures in order to obtain sufficient appropriate evidence on which to base any conclusion on the subject matter; e. the member's responsibilities to the engaging party and other specified parties; f. confirmation that the member will apply ethical requirements equivalent to those applicable for 'Reports that Include a Restriction on Distribution or Use' (see NZICA Code of Ethics paragraphs 291.21-27) , if modified independence requirements have been agreed, the level of independence agreed; g. identification of the subject matter to which the procedures will be applied; h. the nature, timing and extent of the specific procedures to be performed i. management's responsibilities; j. identification of the intended users of the report including those users who may not be party to the terms of the engagement, such as a class of user, regulator or bank; k. a statement that the use of the report of factual findings would be restricted to the engaging party, who has agreed to the procedures to be performed, and the intended users identified; and l. reference to the expected form of any reports to be issued by the member, which may be illustrated by attaching to the engagement letter a draft of the report of factual findings that will be issued, omitting the factual findings. 	<p>Retention of guidance in extant APG-1 paragraph 7 with additional requirements regarding ethics and independence added and the recording of them in letter form now mandated.</p>

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
24	The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the member will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed. (Ref: Para. A11)	Clarification of the importance of the member not exercising professional judgement in the AUP engagement and that it is users who must design procedures – extant APS-1 paragraph 9 permits this activity
25	When conducting an agreed-upon procedures engagement, if the member is unable to perform the exact nature, timing or extent of procedures agreed, but alternative procedures can be performed and the engaging party requires those procedures to be performed, then new terms of the engagement shall be agreed with the engaging party in writing.	New requirement – see above
26	The member shall plan the work so that the engagement will be performed in an effective manner, in accordance with the terms of the engagement and this Standard.	No change – see extant APS-1 Standard 5
27	The engagement plan for an agreed-upon procedures engagement shall be restricted to the nature, timing and extent of procedures agreed in the terms of the engagement. The plan does not include alternative or further procedures unless agreed with the engaging party in amended terms of the engagement. (Ref: Para. A14)	Amended requirement that does not permit the member to modify procedures without a new engagement agreement and letter – emphasises the importance of the member not exercising professional judgement and the user's responsibility for designing the procedures in an AUP engagement.
28	The member does not perform a risk assessment for an agreed-upon procedures engagement, as the nature, timing and extent of procedures to be performed are agreed with the engaging party rather than determined by the member in response to assessed risks.	New requirement clarifying the difference between AUP and assurance engagements
29	The member does not apply materiality to designing the procedures to be performed nor to assessing the factual findings to determine whether the subject matter information is free from material misstatement or non-compliance, as this is the responsibility of the intended users.	New requirement clarifying the difference between AUP and assurance engagements
30	The member shall take responsibility for the overall quality of the agreed-upon procedures engagement and shall apply shall apply quality control procedures at both the firm and engagement level as set out in NZICA Professional Standard PS 1 Quality Control (PS -1).	See extant APS-1 Standard 3 -Modified requirements to align with PS-1 <i>Quality Control</i> rather than have requirements in the standard
31	Throughout the engagement the member shall remain alert through observation and making enquiries as necessary, for evidence of noncompliance with relevant ethical requirements including independence by members of the engagement team. If matters come to the members attention that indicate that members of the engagement team have not complied with the relevant ethical requirements the member shall determine the appropriate action	New requirement but also already in PS-1.

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
32	The member shall be satisfied that the engagement team, and any experts engaged who are not part of the engagement team, collectively have the appropriate competence, capabilities and resources to perform the agreed-upon procedures in accordance with this Standard.	No change – see extant APS-1 Standard 4
33	The member shall take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings.	No change – see extant APS-1 Standard 4
34	When the member uses the work of another member, internal auditor or an expert, the member shall evaluate the adequacy of their work, including their objectivity and technical competence in conducting the procedures, whether the nature, timing and extent of procedures conducted agrees with procedures in the terms of the engagement and whether the factual findings communicated detail adequately the result of the procedures conducted.	No change – see extant APS-1 Standard 4 but requirements more detailed and explicit
35	<p>The member shall document:</p> <ul style="list-style-type: none"> a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved; b) conclusions on compliance with independence requirements equivalent to those for 'Reports that Include a Restriction on Use and Distribution' (see NZICA Code of Ethics paragraph 291.21-27 or modified independence agreed; c) conclusions reached regarding the acceptance and continuance of client relationships and acceptance of the agreed-upon procedures engagement; d) the nature, timing and extent of procedures performed and the factual findings obtained, as identified in the agreed-upon procedures report; and e) evidence that the engagement was carried out in accordance with this Standard and the terms of the engagement. 	See extant APS-1 Standard 6. More explicit requirements on matters relevant to an AUP engagement
36	As no assurance is to be provided, the member shall carry out only the procedures agreed in the terms of the engagement and use the results of the procedures to provide a report of factual findings. (Ref: Para. A15-16)	Amended requirement that does not permit the member to modify procedures without a new engagement agreement and letter (see extant APS-1 Standard 5) – emphasises the importance of the member not exercising professional judgement and the user's responsibility for designing the procedures in an AUP engagement
37	If the engaging party's requirements alter during the course of the engagement which require the member to draw conclusions from the findings, the terms of the agreed-upon procedures engagement cannot be extended to the provision of assurance. However, a new engagement may be agreed for the provision of assurance, if appropriate, to be conducted in accordance with applicable auditing, review or other assurance engagement standards issued by the NZAuASB.	Amended requirement that does not permit the member to modify procedures without a new engagement agreement and letter (see extant APS-1 Standard 5) – emphasises the importance of the member

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
		not exercising professional judgement or providing an opinion , and the user's responsibility for designing the procedures in an AUP engagement
38	The member shall provide a report of factual findings for the agreed-upon procedures engagement. In contrast to an assurance report, a report of factual findings does not include an evaluation of those findings in order to draw a conclusion or form an opinion. (Ref: Para. A17)	No change - see extant APS-1 Standard 8
39	The member shall not express a conclusion or opinion in an agreed-upon procedures engagement as the member has not performed a risk assessment, responded to assessed risks by determining the procedures to be performed or assessed whether sufficient appropriate evidence has been obtained as a reasonable basis for expressing a conclusion.	No change – see extant APS-1 Standard 8
40	If the member is undertaking an agreed-upon procedures engagement in parallel with an assurance engagement, the factual findings from the agreed-upon procedures engagement shall be presented separately from the report on the assurance engagement.	New requirement again supporting clarity between AUP and assurance engagements
41	Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.	No change – see extant APS-1 paragraph 8.2
42	<p>The report of factual findings for an agreed-upon procedures engagement shall contain: (Ref: Para. A18-A19)</p> <ul style="list-style-type: none"> a) a title; b) an addressee (ordinarily the engaging party); c) identification of the specific information to which the procedures have been applied; d) a statement that the procedures performed were those agreed with the engaging party; e) a statement that the engagement was performed in accordance with APS-1 revised; f) a statement that either ethical requirements equivalent to those for 'Reports that Include a Restriction on Distribution or Use' (see NZICA Code of Ethics paragraphs 291.21 - 27) been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied; g) identification of the purpose for which the agreed-upon procedures engagement was performed; h) a statement that the responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by the member is that of the engaging party; i) a listing of the specific procedures performed, detailing the nature, timing and extent of each procedure; j) a description of the member's factual findings in relation to each procedure performed, including sufficient details of errors and exceptions found; 	Retention of guidance in extant APG-1 paragraph 7 with additional items regarding ethics and independence added

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
	<ul style="list-style-type: none"> k) identification of any of the procedures agreed in the terms of the engagement which could not be performed and why that has arisen; l) a statement that the procedures performed do not constitute either a reasonable or limited assurance engagement and, as such, no assurance is provided; m) a statement that had the member performed additional procedures, a reasonable assurance engagement or a limited assurance engagement, other matters might have come to the member's attention which would have been reported; n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement; o) a statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial report, or other specified report, taken as a whole; p) the date of the report; q) the member's address; and r) the member's signature. 	
43	If the member is required by law or regulation to use a specific layout or wording for the report of factual findings, the report of factual findings shall refer to this standard only if the member's report includes, at a minimum, each of the elements in paragraph 42.	More explicit mention of impact of laws and regulations on report elevating and expanding guidance from extant APG-1 paragraph 7
44	<p>Law or regulation of the relevant jurisdiction may prescribe the layout or wording of the report of factual findings in a form or in terms which are significantly different from the requirements of this standard. In these circumstances, the member shall evaluate:</p> <ul style="list-style-type: none"> a. whether intended users might misunderstand the factual findings reported and the fact that no assurance is provided; and, if so; b. whether additional explanation in the report of factual findings can mitigate possible misunderstanding. <p>If the member considers that additional explanation in the report of factual findings cannot mitigate possible misunderstanding, the member shall not accept the engagement unless required by law or regulation to do so. As an agreed-upon procedures engagement conducted in accordance with such law or regulation does not comply with this standard, the member shall not include any reference in the report of factual findings to the engagement having been conducted in accordance with APS-1 (revised). (Ref: Para. A20)</p>	New requirement dealing with the impact of laws and regulations on the report elevating and expanding guidance from extant APG-1 paragraph 7
45	The member shall not issue modifications or an emphasis of matter in a report of factual findings, as no conclusion or opinion is expressed. Nevertheless, the following matters, if applicable, are reported as part of the factual findings:	Retention and expansion of guidance in extant APG-1 paragraph 8.3

ED of APS-1 (revised) para #	Requirements of ED of APS-1(Revised) <i>Agreed-Upon Procedures Engagements to Report Factual Findings</i>	Commentary
	(a) errors or exceptions identified as a result of the procedures performed, regardless of whether they were subsequently rectified by the entity; and (Ref: Para. A21) (b) the inability of the member to perform any of the agreed-upon procedures. (Ref: Para. A22)	
46	The report of factual findings for an agreed-upon procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain: (a) a statement of compliance with standards issued by the NZAuASB, (b) inappropriate use of the terms 'assurance', 'audit', 'review', 'opinion' or 'conclusion'; or (c) any statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria.	Enhancement of requirement in extant APS -1 paragraph 8.3 and retention and expansion of guidance in extant APG-1 paragraph 10 supporting clarity between AUP and assurance engagements

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1

Meeting date: 8 April 2018

Subject: Questions at annual general meetings (AGMs)

Date: 23 March 2018

Prepared by: Misha Pieters

<input checked="checked" type="checkbox"/> Action Required	<input type="checkbox"/> For Information Purposes Only
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Objective

To consider the guidance issued in Australia regarding answering questions at AGMs and the bulletin expanding on questions related to key audit matters to determine the need for equivalent guidance in New Zealand.

Background

1. The Australian Auditing and Assurance Standards Board (AUASB) issued GS 010 *Responding to Questions at an Annual General Meeting* in March 2009. This replaced a previous version of a guidance statement issued in 2005. The Corporations Act 2001 (the Act) includes provisions for members to obtain information from the auditor relevant to their investment by submitting written questions before the AGM or by raising questions at the AGM.
2. GS 010 refers to sections 250PA and 250T of the Act. These sections include provisions for members to ask the auditor questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the company and the independence of the auditor. GS 010 covers
 - The auditor's responsibilities in responding to Questions
 - AGM planning
 - Context
 - Responses
 - Modifications
 - Audit files
 - Auditor's representative at the AGM
 - Inability to provide a response
3. In October 2017, the AUASB issued a [bulletin](#) in addition to the GS related to "The new enhanced Auditor's Report – responding to questions at AGMs". This bulletin refers to section 250PA and 250T of the Act and reminds the auditor not to respond to questions that go beyond the scope of the audit. The Bulletin reminds the auditor to refer to GS 010 responding to questions.

4. The bulletin flags the types of questions that may arise at an AGM related to key audit matters and provides some guidance for auditors to assist in preparing for AGMs – highlighting the purpose of KAMs, the definition of KAMs, flags that there are no separate opinions on individual KAMs, etc. It also covers matters related to Other Information and Going Concern.
5. In New Zealand there is no equivalent to GS 010. The legislative requirements in New Zealand related to questions to the auditor at AGMs are not detailed as they are in the Corporations Act. The Companies Act 2013 section 207W refers only to the Auditor's attendance at shareholders' meetings. It requires that the board must ensure that the auditor is permitted to attend the AGM and may be heard at the meeting on any part of the business of the meeting that concerns the auditor.
6. In October 2017 the Board raised whether the AUASB's bulletin had application in New Zealand, and this has been added as a matter for consideration on the action list. In interviews conducted related to the New Zealand first year experience of KAMs, it was noted that very few preparers or auditors have received any feedback from users about the KAMs reported.
7. Since there is no equivalent to GS 010, a bulletin that deals with KAMs and AGMs may not have the necessary context in New Zealand. We request feedback from the board on the need for, as well as the priority of, a guidance document related to answering questions at AGMs generally, with a possibility of including a section on KAMs if such guidance is considered necessary.

Matter for discussion

8. The Board is asked for feedback as to whether there is a need for guidance on responding to questions at AGMs generally and if so, the priority for developing such guidance.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	GS 010

GS 010
(March 2009)

Guidance Statement GS 010

Responding to Questions at an Annual General Meeting

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the AUASB website:
www.auasb.gov.au.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting* as set out in paragraphs 1 to 44, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory details and suggested procedures on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new mandatory requirements.

Dated 12 March 2009

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 010

Responding to Questions at an Annual General Meeting

Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors on responding to questions at an Annual General Meeting (AGM) of a listed public company.

Issuance Date

- 2 This Guidance Statement is issued in March 2009 by the AUASB and replaces AGS 1046 *Responding to Questions at an Annual General Meeting* issued in October 2005.

Introduction

- 3 The *Corporations Act 2001* (the Act) includes provisions for members to obtain information from the auditor relevant to their investment by submitting written questions before the AGM or by raising questions at the AGM.

Definition

- 4 “Those charged with governance” include those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions. In the context of this Guidance Statement, those charged with governance include those persons accountable for the preparation for, and conduct of, an AGM. For some entities, in addition to the directors, this may include management, for example, the company secretary.

Written Questions to the Auditor before the AGM

- 5 Section 250PA of the Act states:
- “(1) A member of a listed company who is entitled to cast a vote at the AGM may submit a written question to the auditor under this section if the question is relevant to:
- (a) the content of the auditor’s report to be considered at the AGM; or
- (b) the conduct of the audit of the annual financial report to be considered at the AGM.
- The member submits the question to the auditor under this subsection by giving the question to the listed company no later than the fifth business day before the day on which the AGM is held.”
- 6 In accordance with section 250PA(3) of the Act, the listed company must pass the question on to the auditor as soon as practicable after the question is received by the company, even if the company believes the question is not relevant to the matters specified in section 250PA(1)(a) and (b).
- 7 In accordance with sections 250PA(4) and (5) of the Act, the auditor must prepare, and give to the listed company, a list of the questions that the listed company has passed on to the auditor which the auditor considers to be relevant to the matters specified in section 250PA(1)(a) and (b). This must be done as soon as practicable after the end of the time for submitting questions under section 250PA(1) and a reasonable time before the AGM.
- 8 The listed company must, at or before the start of the AGM, make copies of the question list reasonably available to the members attending the AGM.
- 9 In accordance with section 250T(1)(b) of the Act, if the auditor or their representative is at the AGM¹, the chair must allow a reasonable opportunity for the auditor or their representative to answer written questions submitted to the auditor under section 250PA.

¹ See section 250RA of the Act relating to the requirement for a listed company’s auditor to attend the company’s AGM at which the audit report is considered.

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

- 10 In accordance with sections 250T(3) and (4) of the Act, the auditor may be permitted to table a written answer to a written question submitted to the auditor under section 250PA and the listed company must make that written answer reasonably available to members as soon as practicable after the AGM.

Questions to the Auditor at the AGM

- 11 In addition to submitting written questions to the auditor prior to the AGM², members are able to direct questions to the auditor at the AGM. Section 250T of the Act states:

“(1) If the company’s auditor or their representative is at the meeting³, the chair of an AGM must:

- (a) allow a reasonable opportunity for the members as a whole at the meeting to ask the auditor or the auditor’s representative questions relevant to:
 - (i) the conduct of the audit; and
 - (ii) the preparation and content of the auditor’s report; and
 - (iii) the accounting policies adopted by the company in relation to the preparation of the financial statements; and
 - (iv) the independence of the auditor in relation to the conduct of the audit; and
- (b) allow a reasonable opportunity for the auditor or their representative to answer written questions submitted to the auditor under section 250PA.”

Auditor’s Responsibilities in Responding to Questions

- 12 In contrast to the responsibilities of those charged with governance for all aspects of the business, the auditor has specific responsibilities which are established by the Act⁴, but which may be extended when agreed with the entity as part of the terms of the

² See paragraphs 5-10 of this guidance statement.

³ See section 250RA of the Act relating to the requirement for a listed company’s auditor to attend the company’s AGM at which the audit report is considered.

⁴ See Part 2M.3 Division 3 of the Act.

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engagement. Members may not be generally familiar with the scope of an audit. Therefore, without due consideration of the role of the auditor, there is the risk that questions from members may be directed to the auditor on matters that should be addressed by those charged with governance.

- 13 The auditor does not respond to questions dealing with issues beyond the scope of the audit mandate and/or questions relating to matters that are the responsibility of those charged with governance. Therefore it is important that the auditor, together with the chair of the AGM and others charged with governance, adequately prepare for participation at an AGM. If auditors are asked to respond to inappropriate questions or if responses are not understood in an appropriate context, there is the risk that any information provided could be misleading.

AGM Planning

- 14 Adequate planning and preparation for the AGM enable authoritative responses to be provided to questions raised. The auditor prepares for questions that may be received whether in writing before the AGM or verbally at the AGM.
- 15 The chair should be familiar with the responsibility and authority of both those charged with governance and the auditor, and with matters arising from the financial report, to ensure that inappropriate questions do not delay proceedings. A question is inappropriate if the person to whom it has been directed is not able to respond with an appropriate level of authority.
- 16 Auditors assist the AGM planning process by meeting with the chair and directors in an AGM planning meeting, and/or by having discussions with directors, management, and/or audit committee members, to ascertain whether there are particular issues which are likely to be of interest.
- 17 The auditor ascertains the protocol for questions at the AGM from the chair of the AGM prior to the meeting. Usually, the chair will communicate to the meeting the protocol for presenting questions and, as a rule, questions are to be addressed to the chair who can direct them to the appropriate respondent.
- 18 Questions directed to the auditor may not be within the scope of the audit or the auditor's responsibilities. The auditor refers such questions to the chair of the AGM. If the question is about an area where the responsibility is divided between the auditor and those

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charged with governance, the auditor endeavours to respond and invites the chair to consider the question as well. For example, a question on accounting policies might be put to the auditor. The auditor can state that the policy complies with Australian Accounting Standards. The chair and/or others charged with governance may explain the choice of that policy within the allowable choices available under Australian Accounting Standards. Where the auditor plans to ask those charged with governance to respond to a written question directed to the auditor, the auditor informs the chair of the intention. This enables those charged with governance to provide an appropriate response at the AGM.

- 19 Written questions are to be encouraged to ensure that an informed, authoritative response can be provided by the relevant party. If written questions are received before the AGM, the company will pass these questions to the auditor. The auditor ensures that responses to such questions are prepared prior to the meeting. Where written questions have been received, the auditor considers whether a written response to the meeting is appropriate.
- 20 Prior notification of issues enables the auditor to seek professional consultation and/or legal advice if appropriate. However, some members may prefer to reserve questions for the meeting. Adequate planning is imperative to identify areas of potential interest to ensure that questions directed to the auditor at the AGM can be properly addressed.

Context

- 21 In response to any question at the AGM, the auditor first conveys to the meeting the context within which the auditor's response is provided by explaining key aspects of an audit which include:
- (a) The auditor conducts an audit in accordance with Australian Auditing Standards, as required by the Act.
 - (b) The auditor is not responsible for the preparation and fair presentation of the financial report. This is the responsibility of those charged with governance.
 - (c) The auditor provides reasonable, not absolute, assurance that the financial report taken as a whole is free from material misstatement.
 - (d) The objective of an audit of a financial report is to enable the auditor to express an opinion as to whether the financial

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report is prepared, in all material respects, in accordance with the applicable financial reporting framework, such as the Act and Australian Accounting Standards.

- (e) The audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial report.
- (f) The auditor determines the procedures required to conduct an audit in accordance with Australian Auditing Standards, having regard to the requirements of these Standards, as well as the Act, other legislation and, when appropriate, the terms of the audit engagement.
- (g) The auditor exercises professional judgement in selecting audit procedures to be performed. Audit procedures include the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making such risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- (h) The audit involves a systematic examination for which audit-based skills, which include skills such as analysis of financial information, knowledge of internal control structures, risk assessment, sample selection, knowledge of accounting standards and other aspects of reporting, are required.
- (i) The auditor's report does not provide assurance in relation to individual elements of the financial report, or other aspects of operations such as the adequacy of the entity's systems of internal control or the selection of accounting policies.

Responses to Questions

- 22 The auditor responds to questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the company in relation to the preparation of the financial report and the independence of the auditor. The auditor is not able to provide an authoritative response to questions dealing with issues that go beyond the scope of the

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audit mandate and/or questions which should have been addressed to those charged with governance, and therefore such questions are declined by the auditor. Paragraphs 23–38 below discuss a number of factors which the auditor takes into account when considering questions.

Auditor Independence

- 23 The auditor responds to question about auditor independence with reference to the Act⁵, Australian Auditing Standards and relevant ethical requirements⁶. Where an individual auditor or an audit firm or audit company has prepared a written auditor independence declaration in accordance with section 307C of the Act, the auditor may choose to refer to the declaration in responding to questions at the AGM.

Audit Approach and Audit Plan

- 24 Auditing Standard ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* requires the auditor to plan and perform an audit by exercising professional judgement and with an attitude of professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated.
- 25 In accordance with ASA 300 *Planning an Audit of a Financial Report*, the auditor exercises professional judgement to assess audit risk and to design audit procedures to ensure audit risk is reduced to an acceptable level. The auditor's assessment of risk requires as prerequisites both a "knowledge of the business" (economy, industry, entity operations, management, legislation and regulation) and an assessment of materiality. When members raise questions relating to the audit approach or audit plan it is possible that they will not have an understanding of these prerequisites, nor of their significance to the audit process. Similarly members' perceptions of risk may vary considerably. Therefore the auditor informs the meeting about the auditor's approach to risk with reference to ASA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and ASA 330 *The Auditor's Procedures in Response to Assessed Risks*.
- 26 It is possible that members may not be familiar with the relevant statutory requirements governing an audit of a financial report.

⁵ See Part 2M.4 Division 3 of the Act relating to the requirements for auditor independence.

⁶ See APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

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Responses to questions at an AGM provide an opportunity to inform members of the requirements mandated by Australian Auditing Standards, relevant requirements of the Act and the professional and ethical standards⁶ governing auditors. It provides further opportunity to explain that adherence to Australian Auditing Standards and professional ethics promote quality in the audit process and commitment to due care.

Audit Procedures

- 27 Questions which relate to specific audit procedures and/or in relation to specific parts of the financial report are addressed by reference to the fact that the auditor's report relates to the financial report taken as a whole. In this context, it is not appropriate for the auditor to address individual audit procedures or financial report components. The auditor indicates that the nature of audit procedures result in many types of audit evidence being obtained and drawn upon to provide sufficient appropriate audit evidence with which to form an opinion on a financial report. Discussion of particular procedures in isolation could be misleading.
- 28 Auditors may find it useful to refer also to *ASA 100 Preamble to AUASB Standards*, which sets out how the AUASB Standards are to be understood, interpreted and applied, to explain that Australian Auditing Standards contain mandatory requirements relating to the planning, conduct and reporting of an audit. Each Auditing Standard describes the procedures to be performed for various aspects of the audit, and is relevant only as an integral component of the whole audit process.

Accounting Policies

- 29 Members may request the auditor to comment on accounting policies adopted by the entity. Selection of accounting policies is the responsibility of those charged with governance, therefore the auditor responds to the question by stating that the policies comply, or do not comply, with Australian Accounting Standards. Those charged with governance may wish to comment on the appropriateness of the choice of accounting policies within those choices permitted by Australian Accounting Standards.

Internal Control

- 30 The auditor ensures that responses given in respect of questions on internal control are provided within the context of the financial report audit. An audit of a financial report conducted in accordance

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with Australian Auditing Standards is not designed to, and therefore does not, provide sufficient appropriate evidence on which to base an opinion on the adequacy of the internal control structure. Evidence on which to base an opinion on internal control would require the application of audit procedures beyond the scope of an audit of a financial report.

- 31 In particular, the auditor communicates clearly that assurance is not provided on internal control, but rather that control procedures are examined only to the extent that reliance thereon might reduce other audit work. An auditor engaged to report on the financial report has no responsibility under Australian Auditing Standards to understand and evaluate the internal control structure beyond that level sufficient to plan and develop an effective audit approach unless there is a specific statutory, regulatory or additional contractual requirement to the contrary. Questions regarding internal control should be addressed to those charged with governance who are responsible for ensuring that an adequate internal control structure exists. (See also paragraph 21(g) above.)

The Auditor's Report

Report on the Financial Report

- 32 The auditor responds to questions about the auditor's report by referring to the auditor's report included with the financial report. Where necessary, the auditor explains the meaning of the terms used in the auditor's report.
- 33 The auditor provides assurance on the financial report taken as a whole. Hence individual items are audited within the framework of materiality appropriate to the financial report as a whole, rather than a materiality level appropriate to a specific individual item. Since audit procedures are not directed towards providing assurance on specific items, the auditor explains why providing such information might be misleading, and ordinarily explains, in general terms, the requirements of Australian Auditing Standards. The auditor may conclude by referring the question to the chair.
- 34 Members may be interested in errors detected by the auditor and/or disagreements with management. The auditor explains the significance of an unmodified report to indicate that any errors or disagreements have been resolved satisfactorily and that such items are considered in the context of materiality appropriate to the financial report as a whole.

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Report on Other Legal and Regulatory Requirements

- 35 In some cases, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial report.
- 36 For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial report. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters. When the audit is conducted pursuant to the Act, section 308(3)(b) also requires the auditor to report on any deficiency, failure or shortcoming in respect of certain matters relating to the completeness of information, explanation and assistance given to the auditor and the maintenance of financial and other records by the entity⁷. These items are referred to in the auditor's report if there is cause for concern; alternatively, silence in the auditor's report indicates satisfaction.
- 37 When the auditor addresses other reporting responsibilities within the auditor's report on the financial report, these other reporting responsibilities are included in a separate section of the auditor's report that follows the opinion on the financial report.
- 38 The auditor responds to questions relating to these other matters by reference to the auditor's report.

Modification to the Independent Auditor's Report

- 39 If the auditor has issued a modified auditor's report, the auditor may expect to be asked questions about issues leading to that modification. The auditor addresses any such questions by reference to the auditor's report. Auditors are reminded that ASA 701 *Modifications to the Auditor's Report* requires that the auditor's report includes all relevant information to explain matters that result in a modified auditor's report
- 40 In certain circumstances the auditor may seek legal advice or professional consultation in preparing responses to issues raised in respect of a modified auditor's report. If further information regarding such issues is required, it may be more appropriate for the auditor to request that those charged with governance provide the response.

⁷ See sections 307(b), (c) and (d) of the Act.

Audit Files

- 41 While responses given by the auditor will be supported by sufficient appropriate audit evidence, audit files are not taken into the AGM. The level of detail relating to specific issues, as contained in audit files, is not appropriate in responses to questions at AGMs.

Auditor's Representative at the AGM

- 42 On those occasions when the auditor is not able to attend an AGM and questions for the auditor have been notified, the auditor arranges for a representative to attend the meeting on the auditor's behalf. In this situation, the auditor ensures that the representative has sufficient knowledge of the engagement and is provided with sufficient information to provide an adequate response to the matters raised.

Inability to Provide a Response to a Question

- 43 A question may arise at the AGM in relation to the audit to which the auditor is not able to provide an immediate response. For example, the auditor may wish to seek legal advice prior to providing the response. In these circumstances, the auditor, in conjunction with the entity's management, makes alternative arrangements, as appropriate, to communicate the information to the members. This may include posting the response on the entity's website.

Conformity with International Pronouncements

- 44 There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 28 March 2018

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 February and March 2018.

International Federation of Accountants (IFAC)

1. IFAC [response to the Monitoring Group Consultation](#) was issued in February 2018. IFAC is of the view that the Monitoring Group must engage in broad-based, open and collaborative dialogue with the key stakeholders—beyond the information session and roundtables already conducted—to discuss critical issues not addressed in this initial consultation, and which need to be considered holistically, in order to arrive at an agreed set of proposals that can be publicly consulted, and which have the broad support of all the key stakeholders.

IFAC is confident that frank and forthright collective discussions and engagement by the Monitoring Group, with IFAC, international audit firm networks, and international and regional stakeholders, will be able to reach agreement on these matters.

IFAC looks forward to collectively engaging with the Monitoring Group and other key stakeholders to continue this important dialogue and arrive at the best public interest outcome for the global economy.

International Auditing and Assurance Standards Board (IAASB)

1. IAASB Ongoing projects (refer to appendix 1)

International Ethics Standards Board for Accountants (IESBA)

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

Accountancy Europe (AE) (former FEE)

1. AE published [FAQ Auditor's role in fighting financial crime Standing up to fraud, corruption and money laundering](#) in February 2018.

This FAQ aims to further explain the auditor's role by answering questions we have been receiving. This publication builds on the information paper Auditor's role in fighting financial crime which provides a comprehensive overview of the auditor's key responsibilities.

Financial crime, such as fraud, corruption, bribery and money-laundering, affects the European Union's (EU) economy and thereby weakens citizens' situation and employment opportunities.

Financial crime costs:

- 120 billion EUR annually to the EU economy (compared to the entire EU budget of 145 billion EUR)
- 10% extra cost of doing business
- 5% of a company's annual revenue
- reputational damage to companies which may adversely affect their market value

Successfully standing up to financial crime depends upon a joint effort by all relevant parties, including business leaders, the accountancy profession, regulators, standard setters and the financial sector. We call for a coordinated approach by all key players to achieve tangible results.

Public Interest Oversight Board of IFAC (PIOB)

1. The PIOB submitted its [comment letter](#) to the Monitoring Group Consultation Paper on Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest in February 2018.

International Integrated Reporting Council (IIRC)

Dr. Eccles and Mike Krzus published a paper titled "[Constructing ExxonMobil's First Integrated Report: An Experiment](#)" in March 2018. In the paper they describe how they constructed a 2016 integrated report for ExxonMobil based on documents the company has put in the public domain. This was an experiment.

Global Reporting Initiative (GRI)

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

International Forum of Independent Audit Regulators (IFIAR)

1. IFIAR [response to the Monitoring Group Consultation](#) was issued in February 2018 (the link to the letter may not work. Please refer to attachment 2 for a copy of the letter.)
2. In March 2018, IFIAR released [its sixth annual survey of findings](#) identified by its Members in their individual inspections of audit firms affiliated with six large, international audit firm networks. Although the frequency of findings from inspections of individual audit engagements has reduced on an overall basis compared to the last survey, progress is not experienced in all jurisdictions or at the same rate. Further, no definitive trends have been noted for findings arising from inspections of firm-wide systems of quality control. These results affirm IFIAR's views that the global networks must continue in their efforts to strengthen their systems of quality control and drive consistent execution of high quality audits throughout the world.

As described in recent survey reports, IFIAR has challenged the networks to reduce the percentage of listed PIE audits that have inspection findings by at least 25% on an aggregate basis, across the global networks' member firms within the GAQ Working Group members' jurisdictions, over a four year period using the 2015 survey results as a baseline. This report reflects the networks' progress at the measurement period's mid-point.

International Organization of Supreme Audit Institutions (INTOSAI)

1. The Office of Auditor General of Norway has published [an article on materiality in public sector auditing](#) in the Winter 2018 edition of the INTOSAI journal.

International Organization of Securities Commissions (IOSCO)

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

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. Highlights from the March 2018 AUASB meeting include:
 - The AUASB received an update on the Financial Reporting Council's (FRC) audit quality initiatives and discussed how the AUASB and FRC are working together on this project. The Board expressed support for the FRC plan, provided feedback on certain aspects and suggested additional key stakeholders to engage with on the topic. The AUASB's associated strategic projects on Audit Quality were also discussed, noting how the AUASB is proactively engaging with ASIC and the large audit firms on this matter.
 - Kris Peach (AASB Chair) provided an update to the AUASB on the AASB's Australian Financial Reporting Framework Project. Members were provided an overview of the key issues for consideration in Australia as a result of the impending release of the International Accounting Standards Board's Revised Conceptual Framework.
 - The AUASB Technical Group provided a status update to the AUASB on the 2017-18 Technical Work Program and how this is being updated following the feedback from stakeholders at the AUASB Agenda Consultation Meetings held in November 2017. It was agreed that the AUASB would be presented with a quarterly update of this document at future meetings. The AUASB also received an update on the AUASB's eight strategic projects, with new plans relating to Data Analytics and Public Sector Audit Issues presented to the AUASB for the first time. The AUASB requested the AUASB Technical Group include updates on each strategic project as a standing agenda item at future meetings
 - The AUASB were presented with a proposed version of ASA 102. The Board identified minor editorials in the standard and agreed to issue the standard, subject to confirmation of what the correct application date should be

The Australian Securities & Investments Commission (ASIC)

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

United Kingdom

Financial Reporting Council (FRC)

1. The FRC [expressed](#) its strong support for the objectives of the reform proposals issued by the Monitoring Group, and has urged that momentum is maintained in February 2018.

The FRC considers that reform should be extended throughout the standard setting framework, and that the Monitoring Group should articulate its reform proposals for both the Public Interest Oversight Board and the Monitoring Group itself as well as for the standard setting board. This should include an implementation timetable, which should be provided when it sets out its final reform proposals later in the year.

Institute of Chartered Accountants in England and Wales

1. ICAEW [issued guidance](#) for internal auditors on providing assurance over robotic process automation (RPA). The ICAEW's Internal Audit Panel outline the key risks for organisations in implementing RPA and how internal audit can mitigate these risks.
2. ICAEW published its summary guidance for [the nine stages of an assurance engagement](#).

The Charity Commission

1. The The Charity Commission in England & Wales (CCEW) recently published their latest Accounts monitoring: Reporting of matters of material significance by auditors.

In the six months to 31 October 2017, CCEW found that of the 114 auditor's reports that should have been reported to it as a matter of material significance, only 28 such reports were given. Further, only a small proportion of those 28 reports were made on a timely basis. Charities law requires the report to be made immediately the matter comes to the auditor's attention. The Charity Commission interprets this to be that such reports should be made no later than one day after the date the auditor's report is signed.

Association of Chartered Certified Accountants (ACCA)

1. Initial Coin Offerings (ICOs) are proving a popular new way for organisations to raise capital, but what are the risks and what role can professional accountants play in this dynamic environment? This [article](#) by ACCA covers this topic.

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. A report authored by several leaders in blockchain technology from Deloitte's U.S. audit and consulting business, as well as blockchain leaders of Deloitte Canada, CPA Canada, the AICPA, and the University of Waterloo addressed the impact of Blockchain technology over auditing. [The report, Audit & Assurance Alert — Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession](#), describes how blockchain technology could potentially affect the financial statement.
2. Two new Frequently Asked Questions (FAQs) issued by the AICPA Professional Ethics Division provide nonauthoritative guidance for the effects on independence when senior personnel have been on an attest engagement team for a long period.

The new FAQs have been added to the end of the Professional Ethics Division's FAQ document. According to the first new FAQ, the familiarity threat to independence may increase when senior personnel serve on an attest engagement team for a long period.

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

1. A new Center for [Audit Quality tool](#) published in March 2018 is designed to assist audit committees in their important oversight role related to non-GAAP measures. The tool reports that a non-GAAP measure generally can be useful when it is calculated and presented consistently, transparently disclosed, and comparable to measures disclosed by other companies.

Canada

Canadian Auditing and Assurance Standards Board (CAASB)

1. Highlights from the March 2018 CAASB meeting include:
 - The Board provided input to the CPA Canada nominee on the International Auditing and Assurance Standards Board (IAASB) on issues related to the IAASB's project to revise ISA

540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures. Key issues discussed included:

- scalability of the requirements for simple and complex estimates, including appropriateness of examples;
- requirements related to exercising professional skepticism;
- requirements related to documentation; and
- the proposed effective date for the standard.

The IAASB expects to approve revised ISA 540 in June 2018. The AASB plans to approve the Canadian equivalent standard by the end of 2018

- The Board discussed issues related to implementing the new auditor reporting standards and the significant challenges in preparing a combined U.S. and Canadian auditors report for 2018 and subsequent years. These challenges are due to many differences between the U.S. Public Company Accounting Oversight Board's (PCAOB) standards released in June 2017 and the CASSs. The Board deliberated whether to make any changes to the CASSs to facilitate a combined auditor's report; in particular, to address key requirements related to:
 - disclosure of the engagement partner's name in the auditor's report;
 - more extensive disclosures about management's and the auditor's responsibilities, as well as the location of this information; and
 - reporting of other information.

The Board compared various options for creating a combined U.S. and Canadian auditor's report and their implications. The Board also considered the challenges of complying with reporting requirements in CAS 720, *The Auditor's Responsibilities Relating to Other Information*. The Board will continue to discuss these and other issues at future meetings.

- The Board provided input to the CPA Canada nominee on the IAASB on issues related to the IAASB's project to amend ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, including:
 - the inclusion of introductory paragraphs;
 - the definition of inherent risk factors; and
 - requirements related to identifying and assessing the risks of material misstatement, including a separate assessment of inherent and control risks.

The IAASB expects to approve an exposure draft of revised ISA 315 in June 2018. The Board anticipates approving a Canadian exposure draft shortly thereafter.

- The Board provided input to the CPA Canada nominee on the IAASB on issues related to the IAASB's project to revise International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. Key issues discussed included:
 - the components of firm culture that impact quality;
 - the proposed ordering of components in the standard;
 - the monitoring and remediation process, including how practitioners from smaller firms could implement the requirements;
 - requirements addressing the firm's technology, including whether technology developed by the firm or obtained from an external provider contributes to quality of services the firm provides; and
 - the overall length of the standard, including whether certain appendix material could be removed.

The IAASB is expected to approve an exposure draft of ISQC 1 in September 2018. The Board will approve a Canadian exposure draft shortly thereafter. The Board also discussed whether it should conduct targeted stakeholder outreach before the exposure draft is released to identify and discuss Canadian specific issues. The Board will continue to discuss these and other issues at future meetings.

CPA Canada

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

Appendix 1: IAASB Project and their latest status.

Project	Overview of the project and its current status
<p>Quality Control No Update for the period</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>In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

Appendix 1: IAASB Project and their latest status.

	<ul style="list-style-type: none"> the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details) the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220 the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer the proposed requirements and application material in relation to the eligibility of the EQC reviewer. <p>The Board also discussed the QCTF's recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.</p> <p>Quality Control – Engagement Level</p> <p>In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.</p> <p>Quality Control – Firm Level</p> <p>In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p>
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Appendix 1: IAASB Project and their latest status.

<p>Group Audits– ISA 600</p> <p>No Update for the period</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 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>In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.</p>
<p>Professional Scepticism</p> <p>No Update for the period</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>

Appendix 1: IAASB Project and their latest status.

	<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>The IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p>
<p>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to Financial Institutions (has update for the period)</p>	<p>Objective of the project: The objective of the financial institutions project is to:</p> <ul style="list-style-type: none"> A. Clarify and enhance the relationship between the banking supervisors and the bank's external auditors; B. Consider and address issues of particular significance in audits of financial institutions; and 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>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>

Appendix 1: IAASB Project and their latest status.

	<p>A draft exposure draft of revised ISA 540 has been developed and is to be deliberated by IAASB with an approved ED expected to be issued for comment in December 2016. 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>The Board received an overview of the comment letters received on proposed ISA 540 (Revised) in its September 2017 meeting. The Board discussed respondents' concerns about the complexity of the proposed ISA and potential difficulties in understanding and applying it in practice, and asked the ISA 540 Task Force to look at ways to restructure the proposed ISA to improve its clarity and readability. The Board also discussed the scalability of the ISA, how risk factors could be taken into account, and how best to structure the response to the assessed risks of material misstatement. The Board highlighted the importance of achieving the right balance between issuing a high-quality standard and the public interest in finalizing the ISA in a timely fashion. The IAASB is holding an additional meeting in October to progress proposed ISA 540 (Revised).</p> <p>Update for the period:</p> <p>The IAASB discussed key issues raised by respondents in relation to the Exposure Draft of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures', including the scalability of the ISA, the use of the term "reasonable," the exercise of professional skepticism and the Task Force's approach to the application material. The IAASB also discussed the Task Force's revisions to requirements and application material based on comments received on the Exposure Draft. The IAASB asked the Task Force to focus on redrafting the application material according to the planned approach with a view to conducting a first read of ISA 540 (Revised)¹ in March 2018, ahead of a targeted approval in June 2018.</p>
<p>Data Analytics</p> <p>No Update for the period</p>	<p>Objective of the project: The objective of the Data Analytics Working Group (WG) is to:</p> <ul style="list-style-type: none"> 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>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>

Appendix 1: IAASB Project and their latest status.

	<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 and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p>Emerging External Reporting Update for the period No the</p>	<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 Supporting Credibility and Trust in Emerging Forms of External Reporting in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide thought leadership on assurance issues and coordinate its work with other relevant organizations.</p> <p>The Board received an update on the project in December 2017. It was noted that the grant agreement with the World Business Council for Sustainable Development (WBCSD) was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).</p>

Appendix 1: IAASB Project and their latest status.

<p>Agreed-Upon Procedures</p> <p>No Update for the period</p>	<p>The objective of the project is to:</p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</p> <p>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> <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 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, <i>Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</i>, 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>In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and approved a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.</p>
<p>ISA 315 (Revised)</p> <p>No Update for the period</p>	<p>The tentative objectives of the projects at this stage are:</p> <p>A) to address the issues that have been identified by the ISA Implementation Monitoring project.</p> <p>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).</p> <p>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 <u>project proposal</u> was presented and approved in the IAASB's September 2016 meeting.</p> <p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the <u>March meeting papers</u>.</p>

Appendix 1: IAASB Project and their latest status.

	<p>In September 2017, the ISA 315 Task Force presented proposed changes to the requirements in ISA 315 (Revised) to address identified issues relating to understanding the entity and its environment, including the applicable financial reporting framework, and internal control, including obtaining an understanding of the five components of internal control. The Board broadly supported the proposals, but asked for consideration about some of the proposed changes to the definitions, as well as the perceived focus on controls in obtaining the necessary understanding of the components of internal control. With regard to proposed changes to the identification and assessment of inherent and control risk, the Board supported a separate assessment of inherent and control risk, but asked that the ISA 315 Task Force further consider how this works practically and highlighted that further clarification is needed relating to the assessment of control risk.</p> <p>In December 2017, the Board discussed a first read of proposed changes to the requirements and application material of ISA 315 (Revised)². The Board broadly supported the proposals, but asked for further consideration by the Task Force on various matters, including aspects of the definitions of 'controls' and 'relevant assertions,' and regarding the introduction of the term 'business model' and its interactions with current requirements of the standard. The Board also questioned the use of 'sufficient and appropriate' as it relates to potential confusion with "sufficient appropriate audit evidence" and whether a change may have unintended consequences if this concept were to be introduced as proposed. The Board encouraged further consideration about how fraud can be included as a qualitative inherent risk factor, taking into account how this would link to the fraud risk factors in ISA 240.3 The Board continued to be supportive of the introduction of "spectrum of risk" but thought the spectrum of risk could be better emphasized and explained earlier in the standard.</p> <p>The Board recognized the need for further consideration about scalability, but agreed that scalability should be presented through the requirements and application material in context of the auditor's consideration of risk thereby eliminating the need for "considerations for smaller entities."</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p>
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BY E-MAIL ONLY

February 9, 2018

Mr. Gerben Everts
Chair, Monitoring Group
E-mail address: MG2017consultation@iosco.org

Re: Monitoring Group Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard Setting Boards in the Public Interest

We are supportive of the need for reforms

A number of concerns have been raised regarding the independence of the current standard setting process and its responsiveness to the public interest. In addition, the pace of change in audit and the business environment is accelerating, driven largely by technological advances. We believe it is critical that standards are both relevant and developed in a timely and independent manner in order to underpin audit quality and confidence of investors and other users of audited financial statements.

We appreciate the Monitoring Group's efforts to address these concerns and support the Monitoring Group's efforts to position the international standard setting model for success moving forward.

IFIAR supports the MG's commitment to the next phase in the initiative that involves further analysis of potential and specific proposals, including those addressing options for funding the proposed reforms, an impact assessment and a comprehensive transition plan. This clearly will be a complicated project and it will be imperative that the MG takes the necessary time to work through sufficient detail so it obtains reasonable assurance it has 'got it right', whilst balancing the need to maintain momentum given the accelerating need for change.

The comments we provide in this letter summarize the views expressed by many, but not necessarily all, of the members of IFIAR's Board, not of the members of IFIAR. Accordingly, the comments are not intended to include, or reflect, all of the views that might separately be provided by individual Members on behalf of their respective organization. Where we did not comment on certain specific matters this should not be interpreted as either approval or disapproval by IFIAR.

We believe there is an opportunity to improve accountability of the standard setting model

We believe that accountability of the standard setting model could be strengthened in order to improve its operating effectiveness and to promote the public interest, to be further defined in the next phase of the MG project, being appropriately embedded into all parts of the model.

We support a standard setting model where:

- The standard setting board(s) is/are proactive and operate pursuant to a well-developed strategic plan, and have clearly defined responsibilities and a strong focus on outcomes;



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- The Public Interest Oversight Board (PIOB), operating within a well-developed public interest framework, works within a clear and defined mandate which emphasizes the provision of effective *oversight* of the board(s). The PIOB should hold the board(s) accountable for performance. This includes administering the board member nomination process, holding the board(s) accountable for achievement of their work plan and evaluating the board chair and board members; and
- The Monitoring Group is an effective and transparent body, ensuring objectives of the PIOB and board(s) are fulfilled and functioning as intended through reviewing the performance of the PIOB, including against an agreed upon strategy.

We support participation in the standard setting model by individuals with a variety of experiences and perspectives

We believe the best way to improve the focus on the public interest is to have a variety of different perspectives and experiences represented in the standard setting model. We support the proposals to have members on the standard setting board(s) and PIOB with a variety of different backgrounds, ensuring sufficient independence from the auditing profession. We also support the bodies continuing to have strong outreach to stakeholders through appropriate mechanisms.

We support increased strategic focus by the standard setting board(s)

We feel that the focus of the new board(s) should be more strategic in nature as we believe it will lead to more relevant and timely standards development and will improve the ability to attract a wider range of candidates with more diverse backgrounds and experiences. To achieve this, the board(s) must be supported by a high calibre and expanded professional technical staff who supplement and support the work of the board(s). Given the technical nature of the standards and the role of board members in approving standards however, the new board(s) should have the ability to direct the staff, to determine whether drafting meets their requirements and to challenge the drafting proposed by staff.

We support enhancing the role of the PIOB and encourage the Monitoring Group to implement PIOB reforms simultaneously with the reforms to the board(s)

We are supportive of an expanded role and responsibilities of the PIOB. We believe that expanded and clarified functions will strengthen the PIOB and provide for added accountability in the standard setting model. Improved collaboration and communication between the PIOB and the board(s) is needed to ensure that the public interest is embedded throughout the entire standard setting process. Further consideration should be given as to whether the PIOB should have a right of veto over standards, as opposed to the ability to require further due process.

Appendix 2: IFAIR Response.



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We support the development of an enhanced funding system

We believe developing an effective, stable and independent funding model is a key aspect to be addressed by the reform; and will encourage the Monitoring Group to deepen the practical aspects of its proposals in this regard, taking into consideration all the aspects of the reform which should contribute to the quality of standard setting.

IFIAR Members may have differing views on specific elements of the detailed reform options provided in the consultation paper. We remain receptive to views expressed by other organizations in the consultation process in forming our final views on the reform options and the development of a proposed new governance model.

Yours sincerely,

Brian Hunt, FCPA, FCA, ICD.D
Chair

About IFIAR

Audit quality is a cornerstone of international financial stability and economic growth. Investors and the capital markets rely on auditors to assure the integrity of financial statements.

Established in 2006, the International Forum of Independent Audit Regulators (IFIAR) comprises independent audit regulators from 52 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe. Our mission is to serve the public interest by improving audit quality globally.

IFIAR provides a platform for independent audit regulators to exchange information about the audit environment and practical experiences and insights from their inspections of audit firms, enforcement practices, and the overall audit market. This collective wisdom regarding the forces impacting audit quality and oversight is essential to influence audit matters worldwide and advancing sustainable, high quality audits. Just as importantly, IFIAR is also the only global forum for coordinated, sustained dialogue with global network firms, international standard setters and other international organizations that have an interest in audit quality.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 29 March 2018

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 February and March 2018.

Financial Markets Authority (FMA)

1. **The FMA's** published its [refreshed Corporate Governance handbook](#) in February 2018. The handbook is being refreshed to remove any unnecessary overlap with the NZX Code, particularly to ensure the NZX Code is the primary source for requirements for listed companies. We have also updated the guide in a number of places to bring it in line with corporate governance developments in New Zealand and globally.

The revised handbook is designed as a guide for a wide range of companies and businesses including those who want to raise capital or list on the NZX in the future.

2. The FMA has issued formal warnings to five reporting entities under Section 80 of the Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT Act). Entities are required by law to have their risk assessment and AML/CFT programme audited by an independent auditor every two years.

For this year's review the FMA selected 64 entities to inspect their audit report files and the details of any action, or planned activity, resulting from their last audit report. As a result of this review:

- Five formal warnings were issued to reporting entities for failing to have their risk assessment and AML/CFT programme audited within the last two years.
- The FMA has also issued compliance letters to five reporting entities requesting follow up action by the entity or further information.
- A further six monitoring visits will be carried out in response to this work.

The New Zealand Institute of Chartered Accountants

1. Craig Waldon, CEO of CaseWare Australia & New Zealand, [shares insights](#) about applying data analytics to SME audit engagements.

2. The New Zealand Regulatory Board (NZRB) is updating its existing AUP standard, APS-1 Statement of Agreed Upon Procedures Engagement Standards 1 (APS -1). An invitation to comment (ITC) containing an exposure draft (ED) of a proposed new APS-1 (revised) Agreed Upon procedures Engagements to report factual findings is open for comment until 21 May 2018.

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

Sustainability Matters

1. Stats New Zealand published its [Environmental-economic Accounts:2018](#) in February 2018. The report **presents a summary of New Zealand's stocks** and flows of natural capital (environmental assets) measured to 2016, the economic activities being undertaken to protect the environment and other information that show the interactions between the environment and the economy. This report includes accounts for: .

- Physical stocks of land cover, timber, and water
- Monetary stocks of timber, fish, and renewable energy resources
- Annual resource rents for fish, timber, minerals, and renewable energy
- Physical flows of air emissions (greenhouse gases)
- Environmental protection expenditure by central and local government, and environmental taxes.

The report also includes:

- Physical estimates of carbon stored and sequestered by forests and a range of potential monetary values for carbon sequestration as an ecosystem service
- Estimates of the marine economy in terms of GDP and jobs
- Estimates of the renewable energy generation sector in terms of gross domestic product and jobs.

Stats NZ compiled the information using the System of Environmental Economic Accounting (SEEA) framework, which the United Nations adopted in 2012 as the international standard for measuring the interactions between the environment and the economy.

To: NZAuASB members
From: Rowena Sinclair
Date: 19th March 2018
Re: Academic update 2018-2

This second update for the year looks at New Zealand research on local government's Long-Term plans, before reviewing two syntheses on academic research: (1) auditing and corporate governance; and (2) audit fees and ethical behaviour. The update also considers a New Zealand study on whether regulator guidelines are being followed in relation to the disclosure of non-GAAP financial information.

(1) NEW ZEALAND LOCAL GOVERNMENT LONG-TERM PLANS

Firstly, we look at some New Zealand research undertaken by Bradbury, Raftery & Scott (2018) on the auditing of New Zealand local government's triennial Long-Term Plans (LTP) who reviewed the audit fees of sixty-five local government authorities in New Zealand.

Whilst their study found evidence of higher audit fees for the private sector auditors they consider that as the Office of the Auditor-General *"reviews auditor appointments and provides external arbitration on fee negotiations, the premium is likely to be related to more auditing than a 'brand name' premium"* (Bradbury, et al., 2018, page 62).

Bradbury, et al. (2018, page 53) found that *"LTP audit fees are associated with audit effort, complexity and risk. We argue that higher political competition and debt levels require more audit effort."*

In relation to political influence an earlier study (Bradbury & Scott, 2015, page 406) from two of the authors argued that because of *"the public consultation required in its development, the LTP reflects a negotiated contract between the council and political interests"*.

(2) AUDITING AND CORPORATE GOVERNANCE

Hay, Stewart & Botica Redmayne (2017) provide a CPA Australia funded synthesis on the role of auditing in corporate governance in Australia and New Zealand. Their research identified 50 Australian studies and 13 New Zealand studies. The paper provides a useful overview of these studies firstly in relation to audit committees (i.e. structure, accountability, firm performance, external auditor & internal auditor) then internal audit (i.e. independence, roles, outsourcing and external auditor).

Their review concludes that *"despite extensive research, there is still considerable uncertainty about how corporate governance mechanisms are related to auditing and how auditing is associated with corporate governance. We conclude that recommendations for better governance (beyond a minimum level) are not yet supported by evidence"* (Hay, et al., 2017, page 457).

(3) DISCLOSURES OF NON-GAAP EARNINGS

Following on from recommendations for better governance it is interesting to see the impact (if any) of the guidelines introduced in New Zealand by the Financial Markets Authority (FMA) on the disclosure of non-GAAP financial information.

Rainsbury (2017, page 489) identified 57 listed companies in 2012-2014 that were reporting Non-GAAP earnings. Her study found *"companies reporting non-GAAP information are complying more*

with the disclosure criteria and giving more emphasis to reporting GAAP earnings compared with non-GAAP earnings". This suggests that the FMA guideline has had some impact.

(4) AUDIT FEES AND ETHICAL BEHAVIOUR

The International Ethics Standards Board for Accountants (IESBA) requested a report on a review of published research on audit fees. IESBA identified four issues that they considered to be of concern. Hay (2017) found 187 papers of relevant research, of these 78 papers are summarised in his paper (*Refer Table 1*).

Issue	Ethical Issue	What is known
1. Level of audit fee - Level - Competition - Lowballing and rotation	Low audit fees (<i>professional competency and due care</i>) High non-audit fees (objectivity)	Audit fees are high and non-audit fees low in the U.S., U.K., NZ. Occasional studies showing that fee pressure is associated with lower quality.
	Professional behaviour	Some evidence that competition is lacking in the U.K. and Australia, not in the U.S.
	Low audit fees (<i>professional competency and due care</i>)	Low fees in early years of engagement; some evidence of lower independence.
2. Relative size of fees and dependence	Dependence	Evidence of lower independence with high relative fees in some studies, but also some opposing evidence.
3. Ratio of non-audit fees to audit fees	Objectivity (<i>independence in appearance</i>) Objectivity (<i>independence of mind</i>)	Stock market reacts to high non-audit fees. High non-audit fees associated with reduced independence in some circumstances.
4. Audit services provided by firms that have a significant non-audit services business	Professional competency and due care	Firms that have more NAS business associated with more frequent restatements (<i>unpublished studies</i>).

Table 1 Audit Fee Research: Summary of Issues (Extract from Hay, 2017, page A5)

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