

Board Meeting Agenda

6 December 2018

9.15 am to 5.00pm

XRB, Level 7, 50 Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
9.15 am	1	<u>Welcome and Introduction</u> Apologies: Karen Shires			
9.20 am	2	<u>Board Management</u>			
10.30am	<i>Morning tea</i>				
10.45 am	3	<u>Service Performance Information</u>			
B: PUBLIC SESSION					
11.30 am	4	<u>Strategic Plan Update</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	NZAuASB SAP 2018-2023	Approve	Paper	
	4.3	Implementation Plan 2018/2019	Note	Paper	
12.00 pm	5	<u>Briefing on blockchain and assurance challenges</u>			
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Audit considerations Related to Cryptocurrencies	Note	Paper	
	5.3	Skype meeting with Canadian AASB member	Discuss	Verbal	
1.00 pm	<i>Lunch</i>				
1.45 pm	6	<u>Restructured Code of Ethics</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Issues paper	Consider	Paper	
	6.2.1	Compelling reason test – conflicts of interest	Consider	Paper	
	6.3	Analysis of submissions received	Consider	Paper	
	6.4	PES -1 mark up of draft standard	Approve	Paper	
	6.5	Draft signing memorandum	Approve	Paper	
	6.6	Draft explanation of decisions made	Approve	Paper	
	6.7	Submission CA ANZ	Note	Paper	
	6.8	Submission PwC (locked PDF)	Note	Paper	
2.30 pm	7	<u>Prospective financial information</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Issues paper	Consider	Paper	
3:00 pm	<i>Afternoon tea</i>				

3:05 pm	8	<u>Alternative Engagement Project (late papers)</u>			
	8.1	Board meeting summary paper	Note	Late	
	8.2	Issues paper	Consider	Late	
3.45 pm	9	<u>Modified Audit Reports</u>			
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Summary of modified audit reports	Consider	Paper	
3:50pm	10	<u>Environmental Scanning</u>			
	10.1	International monitoring update	Note	Paper	
	10.2	Domestic monitoring update	Note	Paper	
	10.3	Academic research update	Note	Paper	
C: NON-PUBLIC SESSION					
3.55 pm	11	<u>Closing items</u>			

Next meeting: 13 February 2019, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1
Meeting date: 6 December 2018
Subject: NZAuASB Strategic Action Plan
Date: 20 November 2018

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

To APPROVE:

- the NZAuASB Strategic Action Plan document for the five-year period 1 July 2018 to 30 June 2023; and

To NOTE:

- the actual actions for the period 1 July 2018 to 31 October 2018 against the planned actions in the Strategic Action Implementation Plan for 2018/19.

Background

NZAuASB Strategic Action Plan (SAP)

- At its September meeting the NZAuASB tentatively approved the SAP for the five- year period 1 July 2018 to 30 June 2023, subject to the following amendments:

Extract from the September approved minutes:

To add a focus for developing relationships with academia and other “think tanks”, to proactively provide feedback on user needs research that will help inform standard setting. For example, flag a need for research to inform planned post implementation reviews and explore ways to best engage, for example, by presenting seminars at the universities about the audit environment or inviting a group of auditing academia (lecturers and researches) to a future board meeting. This could be added under strategy 2.1 and 4.

Matters to consider

- We have incorporated the Board’s feedback as a new action *4.11 Developing relationships with academia and other “think tanks”*. We have also made a few other minor changes to the SAP document which have been marked up and comments noted to explain the reason for the change. A marked-up copy of the updated SAP document is available at agenda item 4.2.

3. We have also updated the Strategic Action Implementation Plan for 2018/19 where relevant and have noted the actual progress to date against the planned actions. The Strategic Action Implementation Plan for 2018/19 showing the progress to date is available at agenda 4.3.
4. We ask for the Board's feedback on how we have incorporated a focus for developing relationships with academia, and the other marked up changes we have made.

Recommendation

We recommend that the Board:

- APPROVE the NZAuASB Strategic Action Plan document for the five-year period 1 July 2018 to 30 June 2023;
- NOTE the progress against the NZAuASB Strategic Action Plan for the period 1 July 2018 to 31 October 2018.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	NZAuASB SAP 2018-2023
Agenda item 4.3	NZAuASB Strategic Action Implementation Plan 2018/19 Update



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

"A User-Needs Framework for New Zealand's Wellbeing"

Strategic Action Plan

For the five year period
1 July 2018 to 30 June 2023

September 2018

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

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1. Overview of the NZAuASB

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

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

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

1.1 NZAuASB Outcome Goal

The NZAuASB's strategic objective is:

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

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

1.2 Role and Responsibilities of the NZAuASB

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

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

Other more specific responsibilities include:

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

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

The NZAuASB's Strategic Action Plan reflects these responsibilities.

2. Introduction to the NZAuASB's Strategic Action Plan

2.1 The NZAuASB's Strategic Action Plan

This document is the Strategic Action Plan of the NZAuASB. It outlines the specific actions that the NZAuASB intends to take in the 2018/19 financial year and subsequent years to give effect to the **XRB's** overarching strategic plan. Those actions are consistent with the roles and responsibilities of the NZAuASB as outlined in section 1.2.

It is intended to update and revise this NZAuASB Strategic Action Plan annually during the five year period covered by the overarching strategic plan. This will help ensure that

the Strategic Action Plan is a dynamic document that reflects achievements to date and new subsequent actions.

The NZAuASB's output priorities and **delivery mechanisms are aligned with the XRB's Strategic Plan** for the period 2018-2023. A **summary of the XRB's Strategic Priorities** for the 2018-2023 period is available in Appendix A.

3. Strategic Priorities for the 2018-2023 period

Key focus areas for *A User-needs Framework for New Zealand's Wellbeing*

Internationally standard setting structures for auditing & assurance standard setting (including those for ethics) are under review, which may result in some fundamental changes. These are in addition to other disruptions like developments in artificial intelligence, other technology advances and the professional accounting market place. In the period from 1 July 2018 to 30 June 2023 the NZAuASB plans to actively monitor such disruptions and consider the implications for the New Zealand auditing and assurance standards. The NZAuASB further plans to enhance its regional relationships as a contingency plan in the event of returning to national standard setting

Also, the XRB plans to take an active role in leading the development of extended external reporting (EER) in New Zealand as it relates to users of "corporate" reports. The NZAuASB will monitor the XRB EER project, contributing to the development of guidance as appropriate, and considering the implications for New Zealand auditing and assurance standards.

The NZAuASB's outcome goal in the period 2018-2023 will be achieved through several specific strategies, as set out below, split between an Overarching Strategy, Business as Usual Activities and Specific Strategic Actions.

Overarching Strategy – Broad strategic approach
<ul style="list-style-type: none">• Maintaining and enhancing the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners);• Continuing the convergence and harmonisation approach (where relevant) for auditing and assurance standards;• Working to ensure that New Zealand's auditing and assurance standards are understood and applied in accordance with the NZAuASB's strategic objective; and• Responding to the rapidly changing international environment and external reporting landscape
Business as Usual Activities
This section outlines the "business as usual" activities that the NZAuASB will undertake during the strategic period. These activities comprise the actions required to maintain the existing suites of standards in accordance with the overarching strategy (convergence with international standards, and harmonisation with Australian standards where appropriate). To a large extent these activities are a continuation of the activities undertaken by the

NZAuASB during the previous strategic period.	
<p>Specific Strategy 1: Part A : Maintain Existing Suite of Standards</p> <p>The purpose of this strategy is to ensure that the existing suites of standards are maintained on an on-going basis so that they are fully converged with international standards and harmonised with Australian standards where appropriate at all times.</p> <p>The actions required under this strategy are those necessary to ensure convergence and harmonisation is maintained, including actively monitoring any issues emerging from the implementation of standards, and responding to those issues where appropriate.</p>	
Specific action	This action will comprise...
Action 1A.1: Contributing to International Due Process	<p>Actively contributing to the “due process” activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), by:</p> <ul style="list-style-type: none"> a. Ensuring assurance practitioners and relevant users of assurance reports are aware of the IAASB and the IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB; b. Responding, as appropriate, to the IAASB and the IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the AUASB and the APESB where appropriate; c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.
Action 1A.2: Maintaining New Zealand Standards	<p>Amending the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suites of standards are maintained on an on-going basis, by:</p> <ul style="list-style-type: none"> a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, and including working with the AUASB to ensure any changes are appropriately harmonised; and b. Incorporating any professional and ethical standards, or amendments to those standards, issued by the IESBA, including liaising with the Australian Professional Ethical Standards Board (APESB) to ensure any changes are appropriately harmonised. c. Incorporating any amendments to international standards to domestic standards where applicable, including liaising with the AUASB. d. Incorporating any amendments to international standards to domestic standards where applicable, including liaising

	<p>with the AUASB.</p> <p>e. <u>Liaising with the New Zealand Accounting Standards Board during the development stage of new or amending accounting standards to identify any audit or assurance considerations.</u></p>
Action 1A.3: Monitoring the Assurance Environment	<p>Monitoring the wider assurance environment and considering the implications of any developing issues for New Zealand auditing and assurance standards.</p> <p>a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;</p> <p>b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.</p> <p>c. Tracking local and international research projects and considering the implications for the New Zealand auditing and assurance standards;</p> <p>d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;</p> <p>e. Contributing to government policy work relating to auditing and assurance standards;</p> <p>f. Building relationships and liaising with other relevant NSSs on matters of mutual interests, specifically on the use of data analytics and audit of SMEs;</p> <p>g. Monitoring the XRB EER project, contributing to the development of reporting guidance as appropriate, and considering the implications for New Zealand auditing and assurance standards.</p> <p>h. <u>Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group, including the possible restructuring of firms, and considering the implications for the New Zealand auditing and assurance standards.</u></p>
<p>Specific Strategic Actions</p> <p>This section outlines the new specific strategic actions that the NZAuASB intends to carry out during the period of the strategic plan. These strategic actions comprise activities that would not normally be undertaken as part of the business as usual actions outlined in section 3.</p> <p>They also relate to issues or matters not addressed (or addressed in any detail) by the NZAuASB previously.</p>	
<p>Specific Strategy 1: Part B : Address critical issues</p> <p>The purpose of this strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting. The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address</p>	

Commented [SvD1]: Also included in the NZASB SAP.

Commented [SvD2]: Combined three related activities previously shown separately.

those critical issues within a reasonable timeframe.

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

In addition, the NZAuASB is aware of a small number of critical issues with the existing standards that it plans to address during the 2018-2023 period:

Specific action	This action will comprise...
Action 1B.1: Developing Guidance on Assurance on Non-Financial Information other than service performance information	<ul style="list-style-type: none"> a. Obtaining a greater understanding of the assurance engagements on non-financial information being carried out in New Zealand; b. Developing the guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1B.2: Developing an Assurance Standard on the Examination of Prospective Information	Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1 B3: Developing an Auditing Standard on Auditing Service Performance Information	Developing an auditing standard on auditing service performance for Public Benefit Entities (PBEs) ¹ in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1 B4: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relevant assurance products and develop guidance where identified.	<ul style="list-style-type: none"> a. Considering what further guidance is needed that explain the difference between reasonable and limited assurance, as well as various assurance products that are available, relevant standards to use, how to deal with unclear assurance requirements, and the correct terminology to use when setting assurance requirements in legislation and/or policies. b. Developing appropriate guidance.
Action 1 B5: Developing a Review Standard on Reviewing Service Performance Information	Developing a review standard on reviewing service performance for Public Benefit Entities (PBEs) in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1 B6: Developing an Engagement Standard/Guidance for smaller NFPs	Developing 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, in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.

¹ This action reflects the new accounting standards that require PBEs to include both financial and non-financial information in their general purpose financial reports to report their performance. In addition many PBEs are required by legislation to report service performance information.

Action 1 B7: Perform a post implementation review jointly with the AUASB on the Compliance Engagement Standard	Performing a post implementation review on the Compliance Engagement Standard jointly with the AUASB to determine if further guidance is needed.
Action 1 B8: Developing Guidance or amending NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>	<ul style="list-style-type: none"> a. Considering whether to amend the standard or to develop guidance, similar to guidance developed by the AUASB, for the new auditor reporting requirements and NOCLAR. b. Amending the standard in accordance with the due process for domestic standards or developing guidance similar to the AUASB guidance.
Action 1 B9: Reviewing the compelling reason test	<ul style="list-style-type: none"> a. Performing a review of the compelling reason test, in collaboration with the AUASB, to determine if it remains fit for purpose b. Liaising with the AUASB about any changes that may be needed.

Specific Strategy 2: Undertake User-Needs Research

A key objective of the XRB is to ensure that auditing and assurance standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes. This strategy involves undertaking deliberate, organised research into needs of the various users of NZAuASB standards as a basis for considering enhancements **to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international standard setting boards.**

Specific action	This action will comprise...
Action 2.1 Undertake user needs research as appropriate	<ul style="list-style-type: none"> a. Identifying and performing applicable user needs research to undertake where appropriate. b. Using the research outcomes of the XRB Organisation as a basis for considering future enhancements to the auditing and assurance standards and to help inform efforts to influence the work of the international standard setting boards:-

Commented [SvD3]: Planned action for 2018/19 is to research if guidance should be developed for KAMs on other assurance engagements. This has been included in the Strategic Action Implementation Plan 2018/19.

Commented [SvD4]: Not a research action to undertake, so deleted.

Specific Strategy 3: Influence the International Boards

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

The purpose of Specific Strategy 3 is to seek to influence the work of the international boards **during the early stages of standards development through the establishment of "influencing**

strategies” specific to each international board.	
The NZAuASB’s specific strategic actions relating to Specific Strategy 3 reflects the Board’s responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).	
Action 3.1: Building Relationships with the IAASB	<ul style="list-style-type: none"> a. Attending relevant meetings and events (including National Standard Setters meetings); b. Taking opportunities to meet with IAASB members and staff; c. Fostering relationships with Australasian representatives on the IAASB and those who are involved in relevant working groups; d. Hosting IAASB members and staff in visits to New Zealand.
Action 3.2: Increasing the International Visibility of the NZAuASB	<ul style="list-style-type: none"> a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB on joint projects; and b. Identifying appropriate, mutually beneficial IAASB projects and contributing technical resources in support of those projects.
Action 3.3: Supporting Lyn Provost in her role as IAASB member	<ul style="list-style-type: none"> a. Inviting Lyn Provost to Board meetings; b. Arranging meetings with the Technical Advisory Group to receive input before each IAASB meeting; and c. The Director Assurance Standards attending IAASB meetings as Technical Advisor (TA) to Lyn Provost.
Action 3.4: Building Relationships with the IESBA	<ul style="list-style-type: none"> a. Attending relevant meetings and events (including NSS meetings); b. Taking opportunities to meet with IESBA members and staff; c. Fostering relationships with Australian representatives on the IESBA; d. <u>Hosting IESBA members and staff in visits to New Zealand</u>
Specific Strategy 4: Enhance Constituency Engagement and Support Another key aspect of the NZAuASB’s standard setting strategy is to ensure that standards are developed in collaboration with the constituency. This is reflected in Specific Strategy 4 which has three elements: Constituent engagement, awareness raising activities and sector facilitation.	
Specific action	This action will comprise...
Constituent Engagement: establish ways for the NZAuASB to enhance the level and quality of	

Commented [SvD5]: Added as we hosted IESBA Chair and delegation recently

<i>constituent engagement.</i>	
Action 4.1: Enhancing Due Process Consultation	<p>Enhancing due process consultation with major assurance practitioners and user constituent groups² on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents, by:</p> <ul style="list-style-type: none"> a. Identifying and implementing innovative, targeted consultation methods that are high value-added but relatively low-effort from the constituents' point of view; and b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.
Action 4.2: Undertaking On-Going Dialogue	<p>Undertaking an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing and assurance standards, including changes resulting from the evolving nature of the audit market by:</p> <ul style="list-style-type: none"> a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings; b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and c. Maintaining strong working relationships at the operational level with key constituent groups.
Action 4.3: Improving Engagement Relating to Other Assurance Reports	<p>Seeking to improve its engagement with assurance practitioners and (particularly) users of Other Assurance Reports (i.e. assurance engagements other than audits and reviews of historical financial statements) by:</p> <ul style="list-style-type: none"> a. Developing and maintaining a constituency database identifying these users and assurance practitioners; b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.
Action 4.4: Improving Engagement with Small Assurance Practitioners	<p>Seeking to improve its engagement with assurance practitioners that are small firms and sole practitioners, by:</p> <ul style="list-style-type: none"> a. Developing and maintaining a constituency database identifying these assurance practitioners; b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.
<i>Awareness raising activities: ensuring assurance practitioners understand the auditing and assurance standards they have to apply when performing assurance engagements required by law.</i>	

² CAANZ, CPA, FMA, IOD, NZX and others

Action 4.5: Promoting Understanding of Other Assurance Engagements	<p>Undertaking activities to promote an increased understanding of the requirements of Other Assurance Standards and the engagements they apply to, by:</p> <p>Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness of assurance practitioners and users about what comprises Other Assurance engagements and the standards that apply to those engagements.</p>
Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews	<p>Undertaking activities to promote an increased understanding by assurance users of the purpose of audit and review engagements by:</p> <ul style="list-style-type: none"> a. Actively encouraging, facilitating and supporting other relevant organisations to help them educate their members on the purpose of audit and review engagements; b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance in the general constituency about the purpose of audit and review engagements, with a particular emphasis on the NFP sector.
Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements	<p>Undertaking activities to promote an understanding of the IAASB's new auditor reporting requirements as they apply to New Zealand reporting entities, by:</p> <ul style="list-style-type: none"> a. Actively encouraging, facilitating and supporting other relevant organisations where appropriate to help them ensure their members understand the new auditor reporting requirements; b. Conducting speaking engagements and other awareness raising activities as appropriate that help raise awareness of assurance users and those charged with governance about the new auditor reporting requirements.
Action 4.8: Promoting Understanding of the new restructured Code of Ethics	<p>Promote an understanding of the new restructured Code of Ethics that apply to assurance practitioners, by:</p> <ul style="list-style-type: none"> a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to raise awareness of assurance practitioners about the new restructured Code of Ethics.
<p><i>Sector facilitation: encouraging, facilitating and supporting other relevant organisations to provide appropriate training and professional development activities relating to financial reporting; and working with other agencies to ensure the linkages between the work of relevant agencies in the financial reporting area are identified and gaps addressed.</i></p>	
Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality	<ul style="list-style-type: none"> a. Actively encouraging, facilitating and supporting other relevant organisations where appropriate to help them ensure their members understand the factors that affect audit quality;



	b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform all participants in the external reporting supply chain about the factors that affect audit quality.
Action 4.10: Facilitating the enhancement of audit quality	Facilitating discussions to determine if there is a need to develop a best practice guide for audit committees in New Zealand, by: <ul style="list-style-type: none"> a. Approaching other relevant participants in the reporting chain (for example MBIE, IoD, NZX, FMA and the audit firms) to determine if there is an appetite for the joint development of a best practice guide for audit committees
NZAuASB Action 4.11: Developing relationships with academia and other "think tanks"	Developing relationships to direct user needs research to contribute to the standard setting process, by <ul style="list-style-type: none"> a. Meeting with academic constituent groups on a rolling basis as part of the NZAuASB's regular meetings; b. Taking opportunities to meet with academics in other fora, including at events hosted by them.



Commented [SvD6]: Incorporating feedback from Board. The planned actions for the 2018/19 Implementation Plan comprise of:


- Invite academics to a Board meeting to discuss best ways to engage
- Present a seminar at least at one university about the audit environment.

4. NZAuASB Strategic Action Plan Summary

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

	Specific Strategy	Action
	Specific Strategy 1: Maintain & Enhance Existing Standards – Part A: Maintain Existing Suites of Standards (Business as Usual) The primary responsibility of the NZAuASB is to maintain and enhance the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners); and to continue the convergence and harmonisation approach (where relevant) for auditing and assurance standards.	Action 1A.1: Contributing to International Due Process
		Action 1A.2: Maintaining New Zealand Standards
		Action 1A.3: Monitoring the Assurance Environment
	Specific Strategy 1: Maintain & Enhance Existing Standards – Part B: Address Critical Issues This strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting.	Action 1B.1: Developing Guidance on Assurance on Non-Financial Information
		Action 1B.2: Developing an Assurance Standard on the Examination of Prospective Information

	The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.	Action 1B.3: Developing an Auditing Standard on Auditing of Service Performance Information
		Action 1B.4: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relevant assurance products and develop guidance where identified.
		Action 1B.5: Developing a Review Standard on Reviewing of Service Performance Information
		Action 1B.6: Developing an Engagement Standard/Guidance for smaller NFPs to better meet the needs of users, as informed by research completed in 2016-2017.
		Action 1B.7: Perform a post implementation review jointly with the AUASB on the Compliance Engagement Standard
		Action 1B.8: Developing guidance or amending NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>
		Action 1 B9: Review the compelling reason test
	<p>Specific Strategy 2: Undertake User-Needs Research</p> <p>A key objective of the XRB is to ensure that auditing and assurance standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.</p> <p>This strategy involves undertaking deliberate, organised research into needs of the various users of NZAuASB standards as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international standard setting boards.</p>	Action 2.1 Undertake user needs research as appropriate
	Specific Strategy 3: Influence the	Action 3.1: Building Relationships

	<p>International Boards</p> <p>The NZAuASB strategy is to seek to influence the work of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) during the early stages of standards development, through the establishment of "influencing strategies" specific to each international board.</p>	with the IAASB
		Action 3.2: Increasing the International Visibility of the NZAuASB
		Action 3.3: Supporting Lyn Provost in her role as IAASB member.
		Action 3.4: Building Relationships with the IESBA
	<p>Specific Strategy 4: Enhance Constituency Engagement and Support</p> <p>A key aspect of the NZAuASB's standard setting strategy is to ensure that standards are developed with constituents in a collaborative manner, through outreach, awareness raising activities and sector facilitation. This strategy also includes maintaining relationships with key stakeholder groups to monitor any emerging issues.</p>	Action 4.1: Enhancing Due Process Consultation
		Action 4.2: Undertaking On-Going Dialogue
		Action 4.3: Improving Engagement Relating to Other Assurance Reports
		Action 4.4: Improving Engagement with Small Assurance Practitioners
		Action 4.5: Promoting Understanding of Other Assurance Engagements
		Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews
		Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements
		Action 4.8: Promoting Understanding of the new restructured Code of Ethics
		Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality
		Action 4.10: Facilitating the enhancement of audit quality
		Action 4.11: Developing relationships with academia and other "think tanks"

APPENDIX A: Summary of the XRB's Strategic Priorities for the 2018-2023 Period

The XRB's strategies aim to contribute to building trust and confidence in the reporting by New Zealand organisations across all sectors³.

In the period from 1 July 2018 to 30 June 2023, the XRB plans to further develop the standards frameworks (including accounting and auditing & assurance standards⁴) to ensure they continue to be fit-for-purpose for the future. The XRB will focus on developing the User-needs Framework to ensure it is *A User-needs Framework for New Zealand's Wellbeing* and that the XRB's standards frameworks (and standards) meet user-needs and continue to:

- engender confidence in New Zealand financial reporting;
- assist New Zealand entities to compete; and
- enhance entities' accountability to New Zealand stakeholders,

thereby contributing to sustainable and inclusive economic goals and the wellbeing of New Zealanders.

Strategic Priorities – 2018-2023

The XRB's outcome goal in the period 2018-2023 will be achieved through several specific strategies, as set out below:

Overarching Strategy – Broad strategic approach	
<ul style="list-style-type: none">• Maintaining the existing financial reporting strategy including the two-sector, multi-standards, multi-tier Accounting Standards Framework• Continuing, as appropriate, the convergence and harmonisation approach for both accounting and auditing & assurance standards• Responding to the rapidly changing international environment and external reporting landscape	
Specific Strategy	To be achieved by....
Specific Strategy 1: Maintain and Enhance Existing Standards	<p>Enduring policy of sector-specific standards and Tier Structure.</p> <p>Maintaining a financial reporting strategy and standards frameworks that are:</p> <ul style="list-style-type: none">• Reliable and require infrequent changes;• Consistent with legislative frameworks; and• Responsive to legislative changes and stakeholder feedback. <p>Appropriate policy of international convergence/harmonisation.</p> <p>Maintaining existing accounting and auditing & assurance standards (and associated pronouncements) so that:</p> <ul style="list-style-type: none">• They are of high quality;• They remain consistent with international standards, as appropriate; and• There is local relevance and acceptance. <p>Enhancing existing accounting and auditing & assurance standards (and associated pronouncements) by:</p>

³ The underlying foundations of the XRB's strategic plan are set out in detail in the XRB's [Strategic Plan 1 July 2014 to 30 June 2019](#) and in subsequent Strategic Plans.

⁴ Auditing & assurance standards, including ethics standards.

	<ul style="list-style-type: none"> Identifying and addressing any New Zealand-specific deficiencies or gaps; and Expanding, where necessary, the XRB's legal mandate in relation to the issue of standards, for example, in relation to pronouncements on EER. <p>Ensuring transparent due process and consultation.</p> <p>Reviewing the existing "standard taker" policy, understanding the ramifications of change and discussing with policy makers.</p>
Specific Strategy 2: Undertake User-needs Research	<p>Undertaking organised research into the financial and non-financial information needs of users of our standards:</p> <ul style="list-style-type: none"> as a basis for enhancing the financial reporting framework or specific standards; to inform efforts to influence the work of the international standard setting boards; to respond to developments in wider corporate reporting; and to provide thought leadership. <p>Undertaking a post-implementation review of the standards frameworks in the period 2019-2020, including the costs and benefits aspects of the standards frameworks.</p> <p>Investigating the hosting of "labs" or "think tanks" to bring fresh thinking for consideration.</p>
Specific Strategy 3: Influence the International Boards	<p>Seeking to influence the work of the international boards during appropriate stages of standards development to ensure high quality global standards that are applicable in New Zealand:</p> <ul style="list-style-type: none"> Using "influencing strategies" specific to each international board; and By participating, building relationships, and, where appropriate, being represented on international boards. <p>Monitoring and responding to major disruptions and developments in the international standard setting structures and environment, particularly in the audit market, and ensuring that stakeholders are well informed.</p> <p>Maintaining and enhancing regional relationships with like-minded countries, as a contingency plan in the event of a return to national standard setting or a move away from principles-based standards.</p> <p>Re-considering the most effective investment of resources in respect of our influencing strategies, whether this be at the commencement of the standard setting process, the end of the standard setting process or working more closely with regional groups.</p>
Specific Strategy 4: Enhance Constituency Engagement and Support	<p>Developing standards in a collaborative manner with the constituency by:</p> <ul style="list-style-type: none"> Implementing engagement strategies to enhance the depth and breadth of constituency engagement; and Increasing awareness raising activities, including through a communication strategy for social media. <p>Promoting the awareness, understanding and implementation of EER among New Zealand constituents by:</p> <ul style="list-style-type: none"> adopting a proactive leadership approach to EER, giving consideration to investor versus broader stakeholder requirements; considering and implementing a strategy for EER in response to user demands; and

	<ul style="list-style-type: none"> adopting a collaborative approach with other key stakeholders to EER. <p>Working with other agencies, including other standard-setters, to ensure external reporting and assurance gaps are identified and addressed.</p> <p>Providing a thought leadership role involving bold thinking, being proactive and facilitating meetings with key stakeholders to make a difference.</p> <p>Encouraging, facilitating and supporting other relevant organisations to provide appropriate training and professional development activities relating to external reporting.</p>
Specific Strategy 5: Maintain Capability within a Financially Prudent Organisation	<p>Maintaining a high-performance culture to achieve the XRB's outcome goals in a rapidly changing environment.</p> <p>Operating in a financially prudent manner.</p> <p>Maintaining the level of capability needed to deliver the outputs.</p> <p>Reviewing at least annually the External Reporting Advisory Panel (XRAP) membership to ensure an appropriate representation of all stakeholders.</p> <p>Strengthening, widening and improving the relationship matrix.</p> <p>Ensuring prompt commencement of the preparations for the post-implementation review of the standards framework in 2019/2020.</p> <p>Considering use of a digital specialist or specialised advisory group to provide timely and expert advice on technological challenges to XRB's work.</p> <p>Strengthening the risk register for wider issues affecting the XRB.</p>

Actual actions against planned actions as at 31 October 2018.

Specific Strategy 1: Maintain Existing Suites of Standards

<p>Key:</p> <p>Green – ongoing activity and on track</p> <p>Orange – action is work in progress and on track</p> <p>Red – no action taken</p>			
NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>			
a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;	Ongoing	<ul style="list-style-type: none"> Issue communiques when international documents issued Organise consultation events as appropriate 	<p>Communiques issued to highlight consultation documents:</p> <ul style="list-style-type: none"> IESBA (CP), <i>Professional Scepticism</i> (Sept 2018). IAASB ED, <i>ISA 315</i> (July 2018) <p>Consultation events organised:</p> <ul style="list-style-type: none"> 2 webinars with the IAASB Task Force Chair on IAASB ED ISA 315 (Sept and Oct 2018) 2 Roundtables on IAASB ED ISA 315 (Sept 2018). Hosted and organised IAASB EER Roundtable in Auckland (Oct 2018)

b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate;		<ul style="list-style-type: none"> • Prepare comment letters • Liaise with AUASB in accordance with established protocol before letters finalised • Liaise with APESB to the extent considered appropriate in each case 	<p>Submissions provided to the following international Boards on the following topics:</p> <ul style="list-style-type: none"> • IAASB (ED) ISA 315 (Oct 2018) • IESBA CP Professional Scepticism (Aug 2018) • IAASB (ED), ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures (Aug 2018) • (IESBA) Survey on its Strategy and Work Plan Beyond 2019-2023 (Jul 2018). • IESBA (ED) – Proposed Application Material Relating to Professional Scepticism and Professional Judgement. (Jul 2018)
c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.		<ul style="list-style-type: none"> • Participate in events in NZ or Australia (or elsewhere on an exceptional basis) 	<ul style="list-style-type: none"> • Chair attended joint APESB/IESBA session on Code of Ethics in Sydney (Nov 2018) • Chair and Director attended IAASB EER Roundtable in Sydney (Nov 2018) • Chair, CE and Director participated in IAASB NSS in Sydney (Nov 2018), organised jointly by Chair and AUASB Chair. • Staff and Board members attended IAASB EER roundtable in Auckland (Oct 2018) • CE, Staff and Chair attended IESBA roundtable on Professional scepticism in Melbourne (July 2018)

NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suites of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
<p>a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, and including working with the AUASB to ensure any changes are appropriately harmonised; and</p>	Ongoing	<ul style="list-style-type: none"> Amend standards following due process as documents issued by IAASB Liaise with AUASB in accordance with harmonisation process protocol 	<p>The following standards/guidance have been approved and issued to NZ constituents following due process:</p> <ul style="list-style-type: none"> ISA (NZ) 540 (Revised) and Conforming Amendments (November 2018) Auditor rotation additional FAQs (July 2018) An additional FAQ on KAM (July 2018)
<p>b. Incorporating any professional and ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> Amend standards following due process as documents issued by IESBA Interact with APESB staff and Chair as appropriate Observe some APESB meetings to build relationships with staff and the Board Agree a communications protocol with the APESB Develop harmonisation process protocol with APESB 	<ul style="list-style-type: none"> Issued ED PES -1 on the restructured Code (Aug 2018) Regular ongoing liaison with APESB CEO and staff to ensure harmonisation of standards and submissions to IESBA. Chair attended APESB Thought Leadership event (Nov 2018) NZAuASB staff interacted with APESB staff at the IESBA roundtable on professional scepticism (July 2018) Chair to attend APESB meeting in Dec

		<ul style="list-style-type: none"> • Apply APESB harmonisation protocol 	
c. Respond as appropriate to any gaps /issues identified with the current suite of standards identified		<ul style="list-style-type: none"> • Develop an appropriate response where such matters are identified. 	No matters identified to date.
d. Incorporating any amendments to international standards to domestic standards where applicable, including liaising with the AUASB.		<ul style="list-style-type: none"> • Amend standards following due process and agreed policy. 	Amending NZ SRE 2410 for new reporting requirements in progress, in collaboration with the AUASB. Refer Action 1B.8.
e. Liaising with the New Zealand Accounting Standards Board (NZASB) during the development stage of new or amending accounting standards to identify any audit or assurance considerations.		<ul style="list-style-type: none"> • Liaise with the NZASB as appropriate • NZAuASB staff to attend at least 3 NZASB staff briefing meetings during the year to receive and provide update on work plans • Invite NZASB Chair and Director to meetings to provide update on NZASB workplan. 	<p>Director attended NZASB staff meeting in Nov 2019.</p> <p>Included NZASB Chair and Director on liaison schedule.</p>
NZAuASB Action 1A.3: Monitoring the Assurance Environment	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will monitor the wider assurance environment and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			
a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;	Ongoing	Passive monitoring via media, public sources, and relationship contacts, specifically:	<ul style="list-style-type: none"> • Ongoing monitoring occurring. No issues on implementation of current standards identified to date.

		<ul style="list-style-type: none"> • implementation of new auditor reporting for FMC reporting entities • implementation of NOCLAR • implementation of long association provisions • auditing of SSPs <p>Monitor modified auditor reports and report half yearly to Board</p>	<ul style="list-style-type: none"> • Modified audit report update provided in July 2018 and December 2018.
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> • Take action as appropriate as matters arise during the year 	<ul style="list-style-type: none"> • Ongoing monitoring occurring. <p>Matters identified:</p> <ul style="list-style-type: none"> - to consider if guidance is required for KAMs in other assurance engagements. Included as planned action for action 2.1. (Sept 2018) - To consider issue raised by FMA re ISA 560 Subsequent Events. (Oct 2018)
c. Tracking local and international research projects and considering the implications for the New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> • Monitor projects, specifically: <ul style="list-style-type: none"> - global extended external reporting developments - academic research - use of data analytics and artificial intelligence in auditing; - <u>auditing for SMEs</u> 	<ul style="list-style-type: none"> • Ongoing monitoring occurring. Environmental scanning report standard agenda item. • Skype meeting with member of Canadian Board to discuss developments in Canada on the impact of new technologies on the audit process (Dec 2018)

d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Director continue to participate at FMA Audit Oversight Committee meetings and report as necessary to the Board Analyse results of QA reviews for standards issues. Liaise with FMA on reviews conducted. 	<ul style="list-style-type: none"> Ongoing attendance at Audit Oversight Committee meetings and reporting to the Board as necessary. Ongoing regular liaison with FMA on audit quality review issues and reporting to the Board as necessary. <ul style="list-style-type: none"> FMA raised issue re SA 560 Subsequent Events (Oct 2018). Added to workplan to consider.
e. Contributing to government policy work relating to auditing and assurance and other related services standards	Ongoing	<ul style="list-style-type: none"> Interact with MBIE and other agencies as requested by them, or as identified as necessary 	<ul style="list-style-type: none"> Ongoing contact with MBIE regarding progress on change in mandate for AUP standard. Ongoing contact with RBNZ regarding auditor reporting
f. Building relationships and liaising with other relevant NSSs on matters of mutual interests (specifically on the use of data analytics and audit of SMEs)		<ul style="list-style-type: none"> Consider matters raised at NSS meetings and take appropriate actions if any implications for NZ standards 	Ongoing monitoring of developments in other jurisdictions on possible implications for NZ standards. No specific actions identified to date.
		<ul style="list-style-type: none"> Continue to work with the AUASB in setting up the NSS collaborative 	<ul style="list-style-type: none"> Jointly organised and hosted NSS meeting in Sydney (Nov 2018)
		<ul style="list-style-type: none"> Have 6-monthly phone catch up with Canadian ethics NSS chair. 	<ul style="list-style-type: none"> Chair and Director had phone catch up with Canadian Ethics Chair and Director in Oct 2018. Next phone call is in March 2019.

		<ul style="list-style-type: none"> Follow up NSS meeting contacts as appropriate 	Chair and Director had skype meeting with AICPA representatives on NOCLAR issues in Oct 2018.
		<ul style="list-style-type: none"> Have 6-monthly catch ups with Canadian ASB and AUASB 	<ul style="list-style-type: none"> Chair and Director had video call in August 2018
		<ul style="list-style-type: none"> Set up regular catch ups with established NSS contacts from South Africa, Hong Kong, Singapore. 	Not yet actioned
		<ul style="list-style-type: none"> Build relationships with NSS contact from China with view to establish regular catch ups. 	Not yet actioned
		<ul style="list-style-type: none"> Interact with APESB at NSS meetings and at least annually through Chair-Chair and senior staff level contact 	<ul style="list-style-type: none"> Ongoing and regular liaison with APESB through senior staff contact. Chair to attend APESB meeting in Dec 2018.
g. Monitoring the XRB EER project, contributing to the development of guidance as appropriate, and considering the implications for New Zealand auditing and assurance standards.		<ul style="list-style-type: none"> Monitor developments and consider if any action is required 	In progress. XRB Board to consider XRB position statement plan at Dec 2019 meeting. Will bring it to the NZAuASB Febr. meeting

h. Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group, including the possible restructuring of firms, and considering the implications for the New Zealand auditing and assurance standards		<ul style="list-style-type: none"> Monitor developments and consider if any action is required 	<ul style="list-style-type: none"> Ongoing.
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Specific Strategy 1: Address Critical Issues

NZAuASB Action 1B.2: Developing an Assurance Standard on the Examination of Prospective financial information	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<i>The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective financial information.</i> This action will comprise:			
Developing the standard in accordance with the due process for domestic standards, ensuring harmonisation with the AUASB standard as appropriate.	Commence 2017/18 Complete 2019/20	<ul style="list-style-type: none"> Approve updated project plan and continue development of standard in accordance with the agreed project plan 	In progress. Approved updated project plan (Sept 2018).
NZAuASB Action 1B.3: Developing an Auditing Standard on Auditing Service Performance Information	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<i>The NZAuASB will develop an auditing standard on auditing service performance for Public Benefit Entities (PBEs).</i> The Action will comprise:			

Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year	<ul style="list-style-type: none"> Issue limited review exposure Issue final standard 	<p>In progress</p> <p>Issued Limited review (July 2018).</p>
NZAuASB Action 1B.5: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relative assurance products, and develop guidance where identified	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will consider what further guidance is needed that explain the difference between reasonable and limited assurance, as well as various assurance products that are available, and relevant standards to use, how to deal with unclear assurance requirements, and the correct terminology to use when setting assurance requirements in legislation and/or policies.</i></p> <p>The action will comprise:</p>			
Developing appropriate guidance.	Whole year.	<ul style="list-style-type: none"> Consider if there is a need for further guidance on the use of the assurance standards. Develop further guidance in accordance with the approved project plan. Include guidance on website Promote the guidance 	No specific guidance identified to date.
NZAuASB Action 1B.6: Developing a review standard on reviewing service performance information	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will develop a review standard on reviewing service performance information for Public Benefit Entities (PBEs)</i></p>			

The action will comprise:			
Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half 2018-19 and complete 2019-20.	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard in accordance with the agreed project plan. 	Not yet commenced.
NZAuASB Action 1B.7: Developing an engagement standard/guidance for smaller NFPs	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<i>The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</i> The action will comprise:			
Developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2018-2019 and complete in 2019-2020	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard/guidance in accordance with the agreed project plan 	In progress.

NZAuASB Action 1B.8: Consider if there is a need to develop guidance or amending NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will consider developing guidance or amending NZ SRE 2410 for the new auditor reporting requirements.</i></p> <p>This action will comprise:</p>			
<p>Deciding whether to amend the standard or to only develop guidance, similar to guidance developed by the AUASB.</p> <p>Amending the standard in accordance with the due process for domestic standards or developing guidance similar to the AUASB guidance.</p>	Whole year.	<ul style="list-style-type: none"> Discuss with practitioners from the big 4 firms the need for guidance/amendments to the standard Depending on the outcome of the discussions, consider whether to amend the standard, or to develop guidance. If required, approve the project plan and amend the standard and/or develop the guidance in accordance with the approved project plan 	<p>In progress.</p> <p>Discussed need with practitioners Approved project plan to amend the standard. Considered issues paper and first draft. (Oct 2018)</p>
NZAuASB Action 1B.9 Perform a post implementation review of the Compliance Engagement Standard	Timing	2018/19 Planned Actions	<u>2018/19 Actual Actions</u>

<p><i>The NZAuASB will perform a post implementation review of the Compliance Engagement standard to determine if further guidance is needed.</i></p> <p>This action will comprise:</p>			
<p>Performing a post implementation review of the Compliance standard jointly with the AUASB.</p> <p>Considering if further application guidance is needed.</p>	<p>Commence 2nd half 2018-19</p>	<ul style="list-style-type: none"> • Liaise with the AUASB and develop a joint project plan for the post implementation review • Perform the post implementation review in accordance with the approved project plan • Consider the results together with the AUASB and decide whether further application guidance is needed. 	<p>Not yet commenced</p>
<p>NZAuASB Action 1B.10</p> <p>Perform a review of the compelling reason test</p>	<p>Timing</p>	<p>2018/19 Planned Actions</p>	<p><u>2018/19 Actual Actions</u></p>
<p><i>The NZAuASB will perform a review of the compelling reason test, in collaboration with the AUASB, to determine if it remains fit for purpose</i></p> <p>This action will comprise:</p>			
<p>Performing a review of the compelling reason test together with the AUASB about any changes that may be needed</p>	<p>Commence 2nd half 2018-19</p>	<ul style="list-style-type: none"> • Staff to liaise with AUASB staff and to prepare a joint issues paper for the 2 Boards to 	<p>Not yet commenced</p>

		<p>consider at concurrent meetings.</p> <ul style="list-style-type: none"> Both Boards to consider outcome of the respective meetings, and staff to jointly prepare an update for Boards to approve at subsequent meetings. 	
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Specific Strategy 2: Undertake User-Needs Research

NZAuASB Action 2.1:		2018/19 Planned Actions	2018/19 Actual Actions
<p>The NZAuASB will undertake deliberate, organised research into needs of the various users of NZAuASB standards as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international standard setting boards.</p> <p>This action will comprise:</p>			
a. Identifying and performing applicable user needs research to undertake where appropriate.	Commence 2 nd half 2018-19	<ul style="list-style-type: none"> Discuss with Commerce Commission and research if there is a need to develop guidance on KAMs for other assurance reports 	Not yet commenced

Specific Strategy 3: Influence the International Boards

NZAuASB Action 3.1: Building Relationships with the IAASB	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including National Standard Setters meetings);	Ongoing	<ul style="list-style-type: none"> Chair and Director to attend NSS meetings Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	<ul style="list-style-type: none"> Ongoing attendance by Director at all IAASB meetings, and report provided to the Board on each meeting. Chair, CE and Director participated in IAASB NSS in Sydney (Nov 2018), organised jointly by Chair and AUASB Chair.
b. Taking opportunities to meet with IAASB members and staff;		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate NZAuASB representatives and staff to attend the NSS meeting in Sydney in Nov. 	<ul style="list-style-type: none"> Ongoing interaction at staff level. Chair, CE and Director participated in IAASB NSS in Sydney (Nov 2018), organised jointly by Chair and AUASB Chair.
c. Fostering relationships with Australasian representatives on the IAASB and those who are involved in relevant working groups;		<ul style="list-style-type: none"> Support Lyn Provost as IAASB member (see 3,3) and interact regularly with Fiona Campbell at IAASB meetings and on specific topics as required Work with AUASB at chair and staff level to 	<ul style="list-style-type: none"> Ongoing support provided to Lyn Provost Ongoing liaison with Fiona Campbell at IAASB meetings. Liaised with Fiona Campbell to present two webinars on ED ISA 315 and to attend a roundtable discussion on ED ISA 315 (Oct 2018)

		influence international agenda.	<ul style="list-style-type: none"> Ongoing liaison with AUASB Chair, Technical Director and staff
d. Hosting IAASB members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IAASB members and staff as appropriate 	
e. Collaborating with other NSSs to better influence the IAASB agenda and other global initiatives		<ul style="list-style-type: none"> Director to liaise with IAASB Deputy Director and AUASB Director on NSS collaboration Chair and Director to work with the AUASB Chair and Director to arrange regional NSS meetings and other NSS initiatives Participate in NSSs collaboration events. 	<ul style="list-style-type: none"> Ongoing liaison with IAASB Deputy Director and AUASB Director on NSS collaboration. NSS meeting successfully organised and jointly hosted by two Chairs. (Nov 2018) Chair, CE and Director participated in IAASB NSS in Sydney (Nov 2018). Ongoing collaboration with other NSS (Refer action 1A3 (f)).
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high quality way.</i></p> <p>The Action will comprise:</p>			
a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB on joint projects; and	Ongoing	<ul style="list-style-type: none"> Identify possible topic to present on at NSS in May 2019 	No topic identified yet.

b. Identifying an appropriate, mutually beneficial IAASB project and contributing technical resources in support of that project.	Ongoing	<ul style="list-style-type: none"> Contribute resources to mutual beneficial projects as opportunities arise, for example AUPs, Quality Control standards and scalability of ISAs for SMEs 	<ul style="list-style-type: none"> Senior project manager assisted with analysis of responses to IAASB strategy survey (Sept 2018) Director participating as task force member on IAASB ISA 540 Implementation project.
NZAuASB Action 3.3: Supporting Lyn Provost in her role as IAASB member	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will provide support to Lyn Provost in her role as IAASB member.</i></p> <p>The Action will comprise:</p>			
Providing support to Lyn Provost	Ongoing	<ul style="list-style-type: none"> Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost Invite Lyn Provost to Board meetings Arrange meetings with the Technical Advisory Group to receive input before each IAASB meeting Arrange high-level discussions between Lyn Provost and NZAuASB when appropriate (for example, at the outset of the response process on ISA 315 review). 	<ul style="list-style-type: none"> Ongoing attendance at all IAASB meetings Lyn Provost attended NZAuASB meeting July 2018. Accepted invitation to April 2019 meeting. Ongoing meetings occurring with technical advisory group before each IAASB meeting.

NZAuASB Action 3.4: Building Relationships with the IESBA	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will seek to build relationships with IESBA members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including NSS meetings);	Ongoing	<ul style="list-style-type: none"> Chair and Director to attend NSS meeting in May 2019. Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	
b. Taking opportunities to meet with IESBA members and staff; and		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	<ul style="list-style-type: none"> The Chair, 3 board members and staff participated in an informal meeting with IESBA Chair, IESBA board member and Director during their outreach visit (Nov 2018). Senior project manager to attend IESBA meetings in Dec and March as secondee on the implementation of the eCode project Staff interacted with IESBA Chair and another board member at the IESBA roundtable on professional scepticism (July 2018)
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	

d. Hosting IESBA members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IESBA members and staff as appropriate 	<ul style="list-style-type: none"> Hosted IESBA Chair, board member and Director on their outreach visit November 12-13, 2018
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Specific Strategy 4: Enhance Constituency Engagement and Support

NZAuASB Action 4.1: Enhancing Auditing and Assurance Standards Due Process Consultation	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.</i></p> <p>The Action will comprise:</p>			
a. Identifying and implementing innovative, targeted consultation methods that are high value-added but relatively low-effort from the constituents' point of view; and	Ongoing	<ul style="list-style-type: none"> Continue current due process engagement methods Develop new communications & engagement approach that reflects different target groups Implement the XRB's communication strategy for social media when developed. 	<p>Ongoing.</p> <ul style="list-style-type: none"> Regular newsletters Webinars and roundtables held on specific subjects. Blog on the restructured Code Posted and shared articles on LinkedIn to raise awareness of events and due process documents.
b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences 	<p>Ongoing.</p> <ul style="list-style-type: none"> Roundtables held in Auckland and Wellington on ED ISA 315 Webinar held on Restructured Code and NZ amendments

		<ul style="list-style-type: none"> Promote other Topics as arise Identify and engage with relevant groups about major new exposure drafts and standards. 	<ul style="list-style-type: none"> Board member and senior project manager to present on assurance on EER in NZ at audit conference in Nov 2018.
NZAuASB Action 4.2: Undertaking On-Going Dialogue with Auditing and Assurance Standards Constituent Groups	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i></p> <p>The Action will comprise:</p>			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings ;	Ongoing	<ul style="list-style-type: none"> Update and include liaison schedule as a standard agenda item Organise regular meetings with key stakeholders identified on the liaison schedule - 	<p>Ongoing</p> <p>Liaison schedule standard agenda item.</p>
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and	Ongoing	<ul style="list-style-type: none"> Organise seminars & round tables Attend other fora Attend mid-tier forum 	<ul style="list-style-type: none"> CE, Chair and Board member presented at AFAANZ Conference on Perspectives on the future of assurance/audit – including regulation and standards setting, professional bodies' roles. Chair and staff attending CAANZ Audit conference Nov 2018.

c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> Built relationships with key groups identified. 	Ongoing liaison with FMA, assurance practitioners, Charity Services, OAG, AUASB, APESB, RBNZ, IOD, Shareholders Association, CAANZ, CPA
NZAuASB Action 4.3: Improving Engagement Relating to Other Assurance Reports	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will seek to improve its engagement with assurance practitioners and (particularly) users of Other Assurance Reports (i.e. assurance engagements other than audits and reviews of historical financial statements).</i></p> <p>The Action will comprise:</p>			
a. Developing and maintaining a constituency database identifying these users and assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	Ongoing
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Whole of year	<ul style="list-style-type: none"> Run targeted communications where relevant 	<p>Ongoing.</p> <p>Send targeted emails to invite relevant constituents to the EER Roundtable held in Oct 2018.</p>
NZAuASB Action 4.4: Improving Engagement with Small Assurance Practitioners	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will seek to improve its engagement with assurance practitioners that are small firms and sole practitioners.</i></p> <p>The Action will comprise:</p>			

a. Developing and maintaining a constituency database identifying these assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	Ongoing
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Ongoing	<ul style="list-style-type: none"> Run targeted communications where relevant, for example webinars, speaking opportunities at SMP's in-house training, surveys. Liaise with professional bodies and raise awareness at special interest group meetings. Run targeted communications on the proposed changes to ISQC1, ISQC2, ISA 315, ISA 220 and on the finalised ISA 540(Revised) Run targeted communications on the new restructured Code. 	<p>Ongoing</p> <ul style="list-style-type: none"> Newsletters issued to advertise events, targeting all qualified auditors in database. Webinars held on ED ISA (NZ) 315 and new Restructured Code. Blog written on new Restructured Code

NZAuASB Action 4.5:	Timing	2018/19 Planned Actions	2018/19 Actual Actions
Promoting Understanding of Other Assurance Engagements			
<p><i>The NZAuASB will undertake activities to promote an increased understanding of the requirements of Other Assurance Standards and the engagements they apply to.</i></p> <p>The Action will comprise:</p>			

Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance practitioners and users about what comprises Other Assurance engagements and the standards that apply to those engagements.		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Targeted meetings with users 	<ul style="list-style-type: none"> • Board member and senior project manager to present on assurance on EER in NZ at CA ANZ audit conference in Nov 2018.
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NZAuASB Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an increased understanding by assurance users of the purpose of audit and review engagements</i></p> <p>This Action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations to help them educate their members on the purpose of audit and review; and	Ongoing	<ul style="list-style-type: none"> • Liaise with Charity Services, CAANZ, CPA, IoD, RBNZ, Law Society. 	<ul style="list-style-type: none"> • Discussions in progress with IoD. Felicity Caird attended Oct meeting. • Ongoing liaison with CA ANZ and CPA at staff and Chair level.
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance in the general constituency about the purpose of audit and review engagements, with a particular emphasis on the NFP sector.	Ongoing	<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Journal Articles for LawTalk • NZAuASB targeted newsletters • Publish and Promote guidance developed 	<ul style="list-style-type: none"> • Senior project manager to present at AUT Auditing 3rd year Paper as guest speaker on auditing standards setting process and regulations.

NZAuASB Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an understanding of the IAASB's new auditor reporting requirements as they apply to New Zealand reporting entities.</i></p> <p>The Action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the new auditor reporting requirements; and	Whole of year	<ul style="list-style-type: none"> Liaise with FMA, IoD, INFINZ, CAANZ (NZ), CPA, RBNZ and others. 	
b. Conducting, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance about the new auditor reporting requirements.		<ul style="list-style-type: none"> Speaking engagements as opportunities arise Write a follow up article on the implementation of the new audit reporting requirements. 	<ul style="list-style-type: none"> Issued newsletter to raise awareness about new auditor reporting requirements for other FMC reporting entities. Issued further FAQ on KAM (July 2018).
NZAuASB Action 4.8 Promoting understanding of the revised and restructured Code of Ethics	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The NZAUASB will undertake activities to promote an understanding of the revised and restructured Code of Ethics that apply to assurance practitioners.</i></p> <p>The action will comprise:</p>			

Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance practitioners about the restructured Code of Ethics	Whole of Year	<ul style="list-style-type: none"> • To hold a webinar end September 2018 • Other speaking engagements as opportunities arise • Liaise with the professional bodies on joint activities to promote. • Journal articles • Set up a webpage on the revised and restructured Code 	<ul style="list-style-type: none"> • Webinar held on restructured Code • Blog written on restructured Code • Newsletter issued on the restructured Code.
NZAuASB Action 4.9: Promoting Understanding of the factors that Affect Audit Quality	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i></p> <p>This action will comprise:</p>			

a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the factors that affect audit quality, including the role of all participants in the external reporting supply chain;	Ongoing	<ul style="list-style-type: none"> Promote the audit quality framework as opportunities arise Liaise with IOD to do an awareness raising session as part of the director education series 	<ul style="list-style-type: none"> Discussions in progress with IoD. Felicity Caird attended Oct meeting. Provided input into FMA's survey on the perception of audit quality
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality		<ul style="list-style-type: none"> Speaking engagements as opportunities arise XRBrief article Promote guidance developed. 	
NZAuASB Action 4.10: Facilitating the enhancement of audit quality	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><i>The focus of the NZAuASB specific actions will be to facilitate discussions to determine if there is a need to develop a best practice guide for audit committees in New Zealand</i></p> <p>This action will comprise:</p>			
Approaching other relevant participants in the reporting chain (for example MBIE, IoD, NZX, FMA and the audit firms) to determine if there is an appetite for the joint development of a best practice guide for audit committees in New Zealand	Whole of year	<ul style="list-style-type: none"> Arrange meetings with other relevant participants to discuss Determine what further action is needed 	Not yet commenced.
NZAuASB Action 4.11: <u>Developing relationships with academia and other "think tanks"</u>	Timing	2018/19 Planned Actions	2018/19 Actual Actions
<p><u>The focus of the NZAuASB specific actions will be to develop relationships with academia and other 'think tanks' to direct user needs research to contribute to the standard setting process.</u></p> <p><u>This action will comprise:</u></p>			

a. <u>Meeting with academic constituent groups on a rolling basis as part of the NZAuASB's regular meetings:</u>		<ul style="list-style-type: none"> • <u>Invite representatives from academia (lecturers and researches) to a Board meeting to explore ways to best engage.</u> 	Included on liaison schedule.
b. <u>Taking opportunities to meet with academics in other fora, including at events hosted by them.</u>		<ul style="list-style-type: none"> • <u>Present a seminar at least at one university about the audit environment.</u> 	

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 5.1
Meeting date: 6 December 2018
Subject: Briefing on blockchain and assurance challenges
Date: 20 November 2018
Prepared By: Sylvia van Dyk

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

To have a two- way exchange with a member of the Canadian Auditing Standards Board about the impact of new technologies on the audit process in our respective jurisdictions and any possible future collaboration.

Background

Through our ongoing liaison with Ken Charbonneau, Chair of the Canadian AASB, we have arranged a briefing by Jean-Francois Trepanier, an AASB member, on the blockchain and cryptocurrencies developments in Canada.

Jean-Francois is a practitioner that regularly deals with the impact of technology on audit. He recently presented a crypto currency session to the AASB and has agreed to share his knowledge. Jean-Francois will join the meeting via skype.

Matters to Consider

CPA Canada has recently issued a publication *Audit Considerations Related to Cryptocurrency Assets and Transactions*. This is available at agenda 5.2. Board members may want to read this in preparation for the discussion and any questions you may want to ask Jean-Francois.

The proposed topics for the discussion are as follows:

- A Canadian perspective on the impact of new technologies on the audit process, in particular arising from the use of blockchains by entities and the assurance challenges arising from them.
- A background to the publication on audit challenges in relation to cryptocurrency assets and transactions; why this has become significant in Canada; and what are the key challenges (in terms of assertions and assurance).

- Where things are in New Zealand on the technology challenges, and use of technologies, in the audit.
- Discussion on the work of the IAASB Data Analytics Working Group (DAWG) and whether as standard setters we should be comfortable with its direction of travel, i.e. the technology-neutral standards remain fit for purpose, given the fast pace of change etc.
- Any ideas about future collaboration that can be raised in the next tripartite chairs' meeting.

The approximate time allocated to each topic are:

- | | |
|-----------------------------|------------|
| • Introduction | 5 minutes |
| • Canadian perspective | 30 minutes |
| • NZ status update | 5 minutes |
| • Questions and discussions | 20 minutes |

Recommendations

We recommend that the Board note the suggested matters to discuss.

Material Presented

Agenda item 5.1
Agenda item 5.2

Board Meeting Summary Paper
Audit Considerations Related to Cryptocurrency Assets and Transactions.

Audit Considerations Related to Cryptocurrency Assets and Transactions



Audit Considerations Related to Cryptocurrency Assets and Transactions

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CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

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Executive Summary

An entity's financial statements may include material cryptocurrency items. This paper is intended to be useful to auditors who have little or no experience with cryptocurrencies and may not fully appreciate the challenges presented when auditing these items. Highlights of matters described in this paper are set out below.

- *Client Acceptance and Continuance Considerations*

Matters to consider include, for example:

- integrity of the client, including the business purpose for which the entity is entering into cryptocurrency transactions (e.g., that transactions do not involve money laundering or other illegal acts)
- management's level of understanding of cryptocurrency risks and internal control over cryptocurrency transactions and balances
- whether the audit engagement partner is satisfied that those involved in the engagement (including members of the engagement team and any auditor's external experts) collectively have the appropriate competence and capabilities in information technology (IT) and cryptocurrencies to perform the engagement in accordance with professional standards.

- *Obtaining an Understanding of the Entity's Information System for Cryptocurrency Transactions*

Matters such as cryptography and [blockchains](#) are complex. Reference sources are provided to enable readers to obtain information on these topics. A simplified example of a process to purchase [cryptocurrency](#) is provided. There is also a brief description of various types of cryptocurrency [wallets](#). These contain the entity's private and public cryptographic keys used in selling cryptocurrency and are used to monitor the entity's cryptocurrency balance.

- *Examples of Matters to Consider in Identifying and Assessing Risks of Material Misstatement in Cryptocurrency Transactions and Balances*

Nine examples are provided of conditions or events that may result in a material misstatement. The material briefly describes matters related to the condition or event, notes the related assertions, and provides examples of internal control considerations. The nine conditions or events are as follows:

1. The entity chooses to use a cryptocurrency exchange that does not have effective controls over the transactions it enters into on behalf of the entity or over the balances of cryptocurrency maintained in the entity's accounts.
2. The entity has a cryptocurrency wallet that has not been accounted for.
3. The entity loses a private key and therefore can no longer access the related cryptocurrency.
4. An unauthorized party obtains access to the entity's private key and steals the entity's cryptocurrency.
5. The entity misrepresents ownership of a private key and therefore of the related cryptocurrency.
6. The entity sends cryptocurrency to an incorrect address and the cryptocurrency cannot be recovered.
7. The entity enters into and records a cryptocurrency transaction with a related party that cannot be identified because of the anonymity of parties to blockchain transactions.
8. There are significant delays in processing cryptocurrency transactions at the end of a period.
9. Events or conditions make it difficult to determine the value at which a cryptocurrency should be recorded for financial reporting purposes.

Introduction

Holdings of [cryptocurrencies](#) allow individuals and businesses to transact directly with each other without an intermediary such as a bank or other financial institution. These cryptocurrency transactions rely on blockchain technology. For an introduction to blockchain technology and the related audit implications, refer to the CPA Canada publication, [Blockchain Technology and Its Potential Impact on the Audit & Assurance Profession](#).

The rapid rise and volatility of cryptocurrencies have led to increased global interest and scrutiny by organizations, investors, regulators, governments and others. During 2017, the market capitalization of cryptocurrencies increased by US\$547 billion or 3,038%.¹ The most popular and widely used cryptocurrency is Bitcoin; however, there are over 1,600 cryptocurrencies in circulation.² Each of these cryptocurrencies has its own unique features and characteristics which makes understanding, accounting and auditing them particularly challenging.

It is becoming common for financial statements to show cryptocurrency balances and to reflect the results of cryptocurrency transactions. However, many auditors may have little or no experience with cryptocurrencies and therefore may not fully appreciate the challenges that auditing these items may present. This non-authoritative publication is intended to provide auditors with examples of matters to consider when:

- deciding whether to accept or continue an audit engagement when an entity has engaged in material cryptocurrency transactions
- identifying and assessing risks of material misstatement in financial statements related to cryptocurrency transactions and balances.

1 <https://coinmarketcap.com/charts>.

2 <https://coinmarketcap.com> as at June 19, 2018.

We encourage auditors to continue to monitor developments in this space and we invite readers to contact us with any feedback or insights that could help us develop future publications on this topic.

Taryn Abate, CPA, CA, CPA (IL)

Director, Audit & Assurance

Research, Guidance and Support

CPA Canada

277 Wellington Street West

Toronto ON M5V 3H2

Email: tabate@cpacanada.ca

Scope

This publication focuses only on engagements to audit financial statements that show material cryptocurrency balances. It does not discuss other types of engagements, such as review of financial statements containing material cryptocurrency items. However, matters discussed in this publication may be adapted as necessary by practitioners performing other types of engagements.

This publication does not discuss procedures that might be performed in response to assessed risks (i.e., tests of controls and substantive procedures). Some auditing firms are exploring the nature, timing and extent of such procedures. Practice will likely evolve as more experience is gained.

This publication also does not discuss matters such as auditing:

- liabilities resulting from agreements to pay amounts owing using a cryptocurrency
- financial statements of a cryptocurrency exchange
- financial statements of entities that:
 - validate cryptocurrency transactions on a blockchain (i.e., cryptocurrency miners)
 - issue Initial Coin Offerings (ICOs) or Initial Token Offerings (ITOs)
- investments in ICOs and ITOs
- controls related to the infrastructure supporting a blockchain, such as the hardware and software used in operating a node
- aspects of income tax expense and liability that may be affected by a lack of clarity in how tax laws and regulations apply to cryptocurrency transactions and balances
- controls implemented by a service organization (perhaps a cryptocurrency exchange) and complementary controls designed and implemented by the entity. For example, any entity's cryptocurrency wallet(s) may be hosted by a cryptocurrency exchange or other type of entity providing this service, resulting in that organization being significantly involved in cryptocurrency transactions and custody of an entity's cryptocurrency.

Client Acceptance and Continuance Considerations

Canadian Standard on Quality Control 1 (CSQC 1) requires a firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements.

These policies and procedures are designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

1. Is competent to perform the engagement and has the capabilities, including time and resources, to do so;
2. Can comply with relevant ethical requirements; and
3. Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

An entity's use of cryptocurrency is likely to be relevant to the auditor in deciding whether to accept or continue an engagement to audit an entity's financial statements. An auditor may encounter circumstances where, for example, the entity has:

- entered into material cryptocurrency transactions for the first time
- significantly changed the nature or increased the extent of its cryptocurrency activities from previous years. For example, an investment entity that previously focused primarily on traditional investment vehicles may decide that a significant part of its investment portfolio will now include cryptocurrencies.

Auditing cryptocurrency transactions can be complex:

Have you considered all relevant matters before accepting or continuing an engagement?

Examples of matters to consider regarding client acceptance or continuance are set out below.

Integrity of the Client Including Its Business Purpose in Entering into Cryptocurrency Transactions

An example of a matter for the auditor to consider regarding client integrity is whether there are indications the client might be involved in money laundering or other criminal activities. There are legitimate business reasons to use cryptocurrencies. However, cryptocurrencies have also been used to launder the proceeds of criminal activities and to finance terrorism and other illegal acts. These types of activity are enabled by the anonymity of participants in blockchain transactions. Also, exchanges where cryptocurrencies are traded for fiat currencies remain largely unregulated (e.g., some are not subject to regulations that apply to banks such as know-your-customer (KYC) and anti-money laundering (AML) rules and requirements to keep a record of unusual transactions).

The auditor's engagement acceptance or continuance procedures would therefore likely include inquiries and related procedures to obtain an understanding of the entity's business purpose in entering into cryptocurrency transactions for the first time or significantly changing the nature or extent of its cryptocurrency activities. A key consideration is whether the entity's significant cryptocurrency transactions are in the normal course of its business. If the auditor identifies significant cryptocurrency transactions that are outside the normal course of business, the auditor is required to:

- evaluate whether it gives rise to significant risks³
- inquire of management about the nature of these transactions and whether related parties could be involved,⁴ and
- whether the business rationale (or the lack thereof) suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.⁵

The auditor is also required to remain alert to the possibility of instances of non-compliance or suspected non-compliance with laws and regulations, including money laundering or other illegal activities.⁶

3 Paragraph 27 of CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

4 Paragraph 16 of CAS 550, *Related Parties*.

5 Paragraph 33(c) of CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

6 Paragraph 16 of CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

Client's Level of Understanding of Cryptocurrency Risks and Relevant Aspects of Internal Control

To establish whether the preconditions for an audit engagement are present, the auditor obtains the agreement of management that it acknowledges and understands its responsibility for certain matters, including:

- the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation
- internal controls necessary to enable the preparation of financial statements free from material misstatement whether due to fraud or error.⁷

Ideally, the client would have an understanding of matters related to cryptocurrency, including its financial reporting implications. The client also would have designed and implemented controls related to its cryptocurrency transactions and balances. However, an auditor may encounter circumstances where the prospective client has not even implemented a process to track its cryptocurrency transactions. In these circumstances, it may be very difficult or not practicable to audit the entity's financial statements.

Competence and Capabilities of Those Involved in Performing the Engagement⁸

Cryptocurrency transactions and management of cryptocurrency assets often involve the use of highly complex cryptography and information technology (IT). In some cases, it may not be practicable to audit cryptocurrency-related assets and transactions without relying on the effective operation of relevant controls. In addition, matters such as the valuation of cryptocurrency items for financial reporting purposes may require the use of valuation experts. Therefore, when deciding whether to accept or continue an engagement to audit financial statements that include material cryptocurrency items and transactions, the engagement partner has to determine whether those involved in performing the engagement (including both members of the engagement team and any auditor's external experts) possess appropriate competency and capabilities.

⁷ Paragraph 6 of CAS 210, *Agreeing the Terms of Audit Engagements*.

⁸ Paragraph 31 of CSQC 1, *Quality Control for Firms that perform Audits and Review of Financial Statements, and Other Assurance Engagements*.

The Entity's Information System for Cryptocurrency Transactions

Canadian Auditing Standards (CASs) require the auditor to obtain an understanding of the entity's information system⁹. This includes, for example, the entity's procedures, within both IT and manual systems, by which transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in its financial statements.

Major cryptocurrencies use transparent public blockchains. All transactions are permanently recorded on the blockchain. Anyone can read or aggregate recorded transactions. These transactions can be tracked, for example, by using a transaction identification number or an address. It is sometimes claimed that blockchain technology eliminates the need for trust among transaction participants. Even if this is true to some degree, nevertheless, there are challenges and risks to using blockchain technology and cryptocurrency.

Some aspects of the entity's procedures regarding cryptocurrency transactions will differ significantly from those for fiat currencies. For example, cryptocurrency transactions involve the use of cryptography, [cryptocurrency wallets](#) and a blockchain. It is possible (although rare) that a cryptocurrency organization may use a cryptographic system other than a blockchain (e.g., Ripple).

To help obtain an understanding of these complex matters, readers may refer to sources such as the following:

- [OSC — Ontarians and Cryptocurrencies — A First Look](#)
- [Bank of Canada — Briefing on Digital Currencies](#)
- [US Congressional Research Service — Bitcoin Q&As](#)

9 Paragraph 18 of CAS 315.

- [UWCISA Bitcoin Process Flow — Accountants Guide](#)
- [Nasdaq article — Cryptocurrency-and-your-small-business-what-you-need-to-know](#)

Example of a Cryptocurrency Purchase

Exhibit 1 shows a simplified example of how cryptocurrency might be purchased and the transaction recorded. This exhibit and the subsequent discussion of cryptocurrency wallets are aimed at readers not already familiar with cryptocurrency transactions. The Exhibit is generic; individual entities may follow a process different from what is illustrated.

A process similar to that shown below might be followed when selling cryptocurrency. For example, the cryptocurrency might be exchanged for another cryptocurrency or a fiat currency.

Other transactions might involve, for example, using cryptocurrency for the sale or purchase of goods or services.

EXHIBIT 1—SIMPLIFIED EXAMPLE OF A CRYPTOCURRENCY PURCHASE TRANSACTION

- Management determines the type of cryptocurrency to be purchased.
- A [cryptocurrency wallet](#) is downloaded from a service provider. A password or passphrase and other security measures considered appropriate are used to secure the wallet against unauthorized access. (See information on types of wallets in the next section of the paper.)
- The wallet software is used to generate the entity's cryptographic private key. A public key is generated using the private key, and the entity's address (single-use identifier) for each cryptocurrency purchase transaction is generated from the entity's public key.
- Management establishes an account with a [cryptocurrency exchange or broker](#).
- The desired amount of cryptocurrency is purchased using the entity's cryptocurrency hot wallet (see next section).
- The transaction is authenticated and then irreversibly recorded on a blockchain. Transactions may be viewed using a blockchain or block explorer (when available).

- To protect the entity's private key from unauthorized access through the Internet, the entity may use one or more methods of cold storage (i.e., cold wallets) to store the private key and related information (e.g., addresses to which the private key is linked).
- Backup copies of the entity's cryptographic keys, particularly the private key, as well as passwords or passphrases needed to access a wallet, are made and safely stored.
- The cryptocurrency transaction is recorded in the company's financial reporting system then, if applicable, translated into the entity's functional currency at an appropriate exchange rate.
- In preparing the entity's financial statements, any adjustments needed are made to the recorded amount of the cryptocurrency asset and related transactions to comply with the applicable financial reporting framework (e.g., IFRS® Standards). For additional guidance on the accounting implications of cryptocurrencies, see CPA Canada's paper, [*An Introduction to Accounting for Cryptocurrencies*](#).

Cryptocurrency Wallets

Cryptocurrency transactions involve the use of a software program known as a cryptocurrency wallet. A wallet is used, for example, to:

- store the entity's private and public encryption keys used for cryptocurrency transactions
- interact with one or more blockchains to send and receive cryptocurrency
- show the entity's balance in each cryptocurrency that results from the various transactions.

If the entity loses a private key and it cannot be recovered, the entity will no longer be able to access the cryptocurrency linked to that key. Therefore, in effect, the cryptocurrency is lost. Also, if an entity's private key is obtained by an outside party, it can be used to undertake unauthorized cryptocurrency transactions which cannot be reversed. The entity's wallet would show transactions not authorized by the entity. The stolen cryptocurrency may never be recovered.

Types of Cryptocurrency Wallets

Hot Wallet

A “hot wallet” is located in a device connected to the Internet (whether hosted or entity-controlled). A hot wallet is required to send cryptocurrency to another address (e.g., spend cryptocurrency) and to obtain an up-to-date snapshot of all the entity’s recent cryptocurrency transactions and balances.

Cold Wallet

A “cold wallet” (or “cold-storage wallet”) is not connected to the Internet. The following are examples of cold wallets:

- **Hardware Wallet**

A “hardware wallet” is located on a USB or other device. The entity’s private and public keys are generated in the device when it is offline by using a random number generator. When the wallet is not connected to the Internet, the entity’s private key is, of course, not accessible by outside parties via the Internet. However, a private key is still susceptible to loss or theft by other means. For example, the device containing the cold wallet may be lost or damaged. Also, a cold wallet temporarily becomes a hot wallet (and therefore less secure) whenever the device containing the cold wallet is connected to the Internet. The private key that was generated offline is now being used online in the process of sending cryptocurrency to another address and is therefore temporarily exposed, for example, to viruses or malware. However, some hardware wallets have a process that generates a digital signature offline in the device so the private key never appears on the computer or other device used to execute the sale transaction.

- **Paper Wallet**

A “paper wallet” is a paper record of the entity’s private key and related information. When the entity’s computer or other devices and printer are offline, software is used to generate a set of private and public keys and related addresses for its cold wallet. The public and private keys for the wallet are printed out on paper. The desired amount of cryptocurrency is sent from the entity’s hot wallet to its paper wallet address. The amount transferred to the paper wallet can be written down. Cryptocurrency can subsequently be sent from the paper wallet. This may be done by entering into the entity’s hot wallet the address to which cryptocurrency is to be sent, then scanning or typing the paper wallet private key into the hot wallet. This private key will then be used to generate the digital signature

for the transaction. For the short period of time it takes to send the cryptocurrency, the paper wallet's private key is no longer "cold" and therefore is exposed, for example, to viruses and malware.

Exchange-Hosted Wallet

An "exchange-hosted wallet" is hosted by a cryptocurrency exchange on its server. The wallet is linked to the entity's account with the exchange. That account contains information identifying the entity. Access to the account and wallet requires a password. The exchange knows the entity's private key stored in the wallet, but the entity itself does not know its private key. The exchange undertakes the cryptocurrency transactions on behalf of the entity (based on the entity's instructions or what has otherwise been agreed).

Examples of Matters to Consider When Identifying and Assessing Risks of Material Misstatement in Cryptocurrency Transactions and Balances

For the purpose of identifying and assessing risks of material misstatement, the CASs require¹⁰ the auditor to:

- Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial statements;
- Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
- Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
- Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

¹⁰ Paragraph 26 of CAS 315.

A risk of material misstatement of a cryptocurrency balance or transaction may be identified when:

- a condition exists or an event occurs that is relevant to one or more of the assertions related to the entity's cryptocurrency balances and transactions
- the entity has not implemented internal control to provide reasonable assurance the results of these events and conditions are recorded in the entity's accounts and reflected in its financial statements as required by the applicable financial reporting framework.

Set out below are nine examples of events or conditions an auditor would likely consider as part of performing procedures to identify and assess risks of material misstatement in cryptocurrency transactions and balances whether due to fraud or error. The information provided for each example includes:

- a brief description of the condition or event
- related assertions
- examples of aspects of internal control that could help prevent or detect and correct a material misstatement. These examples are not a complete list of internal control considerations.

This list is not intended to be exhaustive; other conditions and events may give rise to a risk of material misstatement in cryptocurrency transactions or balances.

Exhibit 2 summarizes these conditions or events and the assertions that may be affected.

EXHIBIT 2—SUMMARY OF CONDITIONS, EVENTS AND ASSERTIONS THAT MIGHT BE AFFECTED

Examples of Condition or Events “What Can Go Wrong”	Examples of Assertions to Which a Possible Misstatement May Relate ¹¹					
	A	C	CO	E	O	R
1. The entity chooses to use a cryptocurrency exchange that does not have effective controls over the transactions it enters into on behalf of the entity or over the balances of cryptocurrency maintained in the entity's accounts.	x	x	x	x	x	x
2. The entity has a cryptocurrency wallet that has not been accounted for.		x				
3. The entity loses a private key and therefore can no longer access the related cryptocurrency.						x

¹¹ Paragraph A129 of CAS 315.

Examples of Condition or Events “What Can Go Wrong”	Examples of Assertions to Which a Possible Misstatement May Relate ¹¹					
	A	C	CO	E	O	R
4. An unauthorized party obtains access to the entity's private key and steals the entity's cryptocurrency.				X		X
5. The entity misrepresents ownership of a private key and therefore of the related cryptocurrency.				X	X	X
6. The entity sends cryptocurrency to an incorrect address and the cryptocurrency cannot be recovered.						X
7. The entity enters into and records a cryptocurrency transaction with a related party that cannot be identified because of the anonymity of parties to blockchain transactions.	X	X				
8. There are significant delays in processing cryptocurrency transactions at the end of a period.			X			
9. Events or conditions make it difficult to determine the value at which a cryptocurrency should be recorded for financial reporting purposes.	X					

Legend:

A: Accuracy, valuation and allocation
 C: Completeness
 E: Existence

CO: Cut-off
 O: Occurrence
 R: Rights (ownership)

Note: Assertions related to presentation are not discussed therein. Also, auditors may use assertions other than those referred to in the paper.

What follows this is a description of example conditions or events that may result in a risk of material misstatement. **This is not a complete list.**

¹¹ Paragraph A129 of CAS 315.

Do you have the appropriate experience needed to audit material cryptocurrency balances and transactions?

If you are auditing an entity with material cryptocurrency balance(s) or transactions, have you assessed all of the risks of material misstatements and related assertions?

Are you comfortable that you will be able to obtain sufficient appropriate audit evidence through designing and performing appropriate responses to those risks?

- 1. The entity chooses to use a cryptocurrency exchange that does not have effective controls over the transactions it enters into on behalf of the entity or over the balances of cryptocurrency maintained in the entity's accounts.**

Related Assertions: there is a possibility that any of the assertions may be affected.

It is common for an entity to use an online exchange to enter into cryptocurrency transactions. Also, in some cases, the entity may use a cryptocurrency wallet hosted by the exchange.

Attributes of the exchange selected may have important implications for all of the assertions related to cryptocurrency noted above. Considerations in selecting an online exchange may include the following:

- who owns and operates the exchange, and its reputation (e.g., some exchanges have allegedly been associated with “pump and dump” schemes (i.e., pump up the price of an security through false stories then dump/sell to the new investors) to artificially affect cryptocurrency prices).
- the country in which the exchange is located. This may determine, for example, the laws and other regulations to which the exchange is subject and could include money laundering regulations that require the exchange to follow “know your customer” protocols.
- cryptocurrencies and fiat currencies for which the exchange allows trades
- exchange’s liquidity and trading volume
- controls the exchange has in effect related, for example, to the security provided over exchange-hosted wallets.

- whether the exchange provides a service auditor's report on the effectiveness of its controls over cryptocurrency transactions and balances undertaken on behalf of its clients. Currently, appropriate service auditor's reports on these controls are rare. However, some cryptocurrency exchanges and auditors are exploring service auditor engagements. Therefore, it is possible that more service auditor's reports will become available in future years.

Internal Control Considerations

- The entity may assign responsibility for selecting the cryptocurrency to purchase and the exchange to use to knowledgeable personnel who are aware of the risks involved and how they might be mitigated.
- Senior management may review and, if appropriate, approve the choices made.
- The entity may decide to use at least two-factor authentication to access its account. This would somewhat mitigate the risk of unauthorized access to the entity's exchange-hosted wallet.

2. The entity has a cryptocurrency wallet that has not been accounted for.

Related Assertions: *Completeness in both recording the cryptocurrency assets and related transaction(s)*

An audited entity may fail to account for one or more of its cryptocurrency wallets (and the related cryptocurrency that it owns). The entity's cryptocurrency assets and related transactions will not have been recorded.

This risk of material misstatement regarding completeness of cryptocurrency assets and transactions may be difficult to assess. The public keys and related addresses in a blockchain do not make transparent the identities of the parties participating in transactions. Further, the entity may not have a long history of cryptocurrency transactions. As a result, the auditor may have difficulty obtaining useful information on which to base their expectation that significant cryptocurrency transactions may not have been recorded.

If the existence of a wallet not previously accounted for comes to the attention of the auditor during the course of the audit, there may be indications its existence was deliberately hidden. This may be indicative of a fraud risk, including the risk of management override of controls regarding cryptocurrency wallets.

Internal Control Considerations

The failure to identify a wallet owned by the entity may be inadvertent. An entity can have many wallets, such that controls regarding authorization for wallet creation and subsequent tracking of wallets may not have been operating effectively. The entity may therefore have lost track of one or more wallets. Establishing clear lines of responsibilities related to wallet creation and tracking may mitigate such risk.

3. The entity loses a private key and therefore can no longer access the related cryptocurrency.

Related Assertions: Rights (ownership) of cryptocurrency assets

If the entity loses a private key, or it is corrupted and it cannot be recovered, the entity will no longer be able to access the cryptocurrency linked to that key and will thus no longer be able to establish its ownership rights. The cryptocurrency connected to that private key will, however, continue to exist on the relevant blockchain. Nevertheless, the cryptocurrency linked to the private key no longer exists as an asset of the entity.

The loss of a private key gives rise to material misstatement if the effect of the loss is not properly accounted for. However, this risk of material misstatement may arise, for example, if those responsible for control over the private key are not aware of its loss when the financial statements are being prepared since they have not attempted to enter into any new cryptocurrency transactions. As another example, those at fault for losing the entity's private key may have a strong incentive to attempt to conceal the loss or not report it on a timely basis.

Internal Control Considerations

- Controls to reduce the risk of loss of access to a private key:
For example, policies and procedures may be implemented to require that the private key (and perhaps related public keys and addresses) be backed up. Backups might be located on separate electronic devices. Another approach is to use a paper wallet. Private keys and passwords or passphrases stored on the backup device or paper wallet might in turn be backed up to help provide reasonable assurance the entity will not lose its cryptocurrency. In addition, the location of the backup device or paper wallet should be made known to several appropriate persons (i.e., not just known to one person).

- Controls to reduce the risk that the loss of a private key will not be communicated and the resulting loss not recorded:
Policies and procedures implemented by an entity may include establishing appropriate segregation of duties (i.e., the responsibility for monitoring cryptocurrency assets from a financial reporting standpoint is performed by persons not involved in executing the entity's cryptocurrency transactions). Policies and procedures may also require that such monitoring be ongoing (e.g., through reviews of the entity's wallets or use of a blockchain (block) explorer when available).

4. An unauthorized party obtains access to the entity's private key and steals the entity's cryptocurrency.

Related Assertions: Rights (ownership) of cryptocurrency assets and Existence of assets for the entity

Matters relevant to the theft of a private key are similar to those for the loss of a private key noted in Example 3 above.

Internal Control Considerations

Risks of unauthorized access to a hot wallet may be mitigated by use of two-factor or multi-factor authentication to obtain access to a wallet. Encryption of wallet contents may add another level of security. Also, the use of a hot wallet only when entering into cryptocurrency transactions and using a cold wallet to store the entity's private key and related information may mitigate the risk of unauthorized access to the entity's private key over the Internet. Further, an entity may decide to have only a small part of its cryptocurrency accessible from a hot wallet, with most of it cryptocurrency stored in a cold wallet.

5. The entity misrepresents ownership of a private key and therefore of the related cryptocurrency.

Related Assertions: Rights (ownership) of the cryptocurrency, occurrence (i.e., the event or transaction related to establishing ownership did not occur) and existence of the resulting balance.

Addressing ownership risk is difficult since ownership of a cryptocurrency is not readily apparent from a blockchain because of the anonymity of the transacting parties. The possession of a private key is a clear indication, at a specific point in time, of the ownership of the cryptocurrency that can be accessed by use of that key. However, ownership of a private key

is not always attributable to one entity. There may be circumstances, for example, when a private key (and ownership of the related cryptocurrency) is legitimately shared between parties. It may also be difficult to determine whether the private key (and therefore the related cryptocurrency) is owned by the entity or owned personally by one or more individuals.

In addition, an auditor may also encounter circumstances indicating an audited entity is fraudulently representing that it alone controls a private key and owns the related cryptocurrency. The auditor is required to maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

Internal Control Considerations

The entity's information system and related controls over creation of its wallets may provide documentation about the creation of private keys and their use in conducting the entity's cryptocurrency transactions. The entity's control environment, including policy statements and codes of conduct, may also be relevant.

6. The entity sends cryptocurrency to an incorrect address and the cryptocurrency cannot be recovered.

Related Assertion: Rights (ownership) of cryptocurrency assets

Each blockchain has its own process to verify that cryptocurrency transactions are authentic and not duplicated (i.e., their consensus algorithm). However, a feature common to all blockchains is that once a transaction is confirmed on the blockchain, it is irreversible. This feature may result in an entity losing cryptocurrency if it is sent to an incorrect address.

Personnel of the audited entity may enter an incorrect address when sending cryptocurrency. The receiving party might voluntarily send the cryptocurrency back to the audited entity in a new transaction but might also decide not to do so. In that latter case, the cryptocurrency would be lost.

A misstatement would occur if the loss of the cryptocurrency is not appropriately recorded. This may occur, for example, when those responsible for managing the cryptocurrency have a strong incentive to attempt to conceal the loss or not report it on a timely basis.

Internal Control Considerations

- Controls to prevent use of incorrect addresses:
The entity's policies and procedures could require both a careful review of each address before sending and the use of a checksum to help guard against typographical errors when entering an address. Also, some blockchains have encoded a checksum in each address. In addition, the entity may consider first sending a very small amount of cryptocurrency to the intended recipient. The recipient's address can therefore be confirmed before sending the larger amount. Use of a QR code (as opposed to typing the address or copying and pasting the address) may also help prevent errors.
- Controls to help reduce the risk that the loss of cryptocurrency is not communicated and recorded:
Examples of controls are the same as those noted under Example 3 above.

7. The entity enters into and records a cryptocurrency transaction with a related party that cannot be identified because of the anonymity of parties to blockchain transactions.

***Related Assertions:** Accuracy (including valuation and allocation) for assets and completeness for disclosures*

The identities of buyers and sellers of cryptocurrency are sometimes referred to as being pseudonymous rather than anonymous. Information such as their names cannot be determined from looking at addresses in blockchain. However, there are links between blockchain addresses and the identities of participants' transactions in, for example, the records of exchanges and brokers used by those parties. It is therefore possible that a regulator or other party might be able to obtain identities. However, in most cases, the names of participants in transactions will not be evident. Therefore, it may not be clear, whether the audited entity is entering into cryptocurrency transactions with related parties that management has not identified. As a result, related parties, transactions with related parties, and resulting balances may not be recorded and disclosed in accordance with the applicable financial reporting framework.

Internal Control Considerations

It is an overall consideration whether the entity's control environment and control activities regarding identifying related parties and authorizing related-party transactions apply to cryptocurrency transactions. These may include, for example:

- policies and procedures for obtaining an appropriate knowledge of the parties with whom the entity is entering into cryptocurrency transactions
- assigning responsibilities within the entity for identifying, recording, summarizing, and disclosing related-party transactions, including cryptocurrency transactions.

8. There are significant delays in processing cryptocurrency transactions at the end of a period.

Related Assertions: Cut-off

Cryptocurrency blockchains may vary significantly in the speed with which they process and confirm transactions. Often transactions are processed in minutes. However, in some cases, a transaction may be delayed for days.

Such delays may occur, for example, when:

- blockchain miners give a low priority to the entity's transactions if the fee the sender agrees to pay to miners is significantly lower than that for other transactions, and the volume of these higher-fee transactions is large
- there has been a suspension of transactions by the exchange hosting the entity's cryptocurrency wallet.

Internal Control Considerations

The entity may implement procedures to monitor cryptocurrency transactions in the days before and after financial reporting dates to determine that transactions are recorded in the appropriate period.

9. Events or conditions make it difficult to determine the value at which a cryptocurrency should be recorded for financial reporting purposes.

Related Assertions: Accuracy (including valuation and allocation)

Financial reporting frameworks such as IFRS Standards do not currently contain explicit references to cryptocurrencies. CPA Canada's paper "*An Introduction to the Accounting for Cryptocurrencies*" notes that concerns have been raised that the application of IAS® 38 *Intangible Assets* and the measurement of cryptocurrencies at cost are not reflective of economic substance and do not provide relevant information to users of financial statements. In some cases, the fair value of cryptocurrencies may be accounted for or disclosed in financial statements.

Particular matters to consider regarding valuation of cryptocurrency include the following:

- Many cryptocurrencies are volatile, and markets may remain open 24/7. The time at which a reporting entity values the cryptocurrency may therefore be important. For example, is the valuation at 11:59 p.m. (time zone) on the last day of the reporting period or at the close of business on that day? This may represent a significant accounting policy. Consistency of application of that policy is required.
- As with stocks or commodities, there are “buy” orders and “sell” orders, often with a significant gap between the respective prices. At any given time, it may be difficult, to exchange a significant amount of cryptocurrency for fiat currency at a price the holder considers fair, within a reasonable time frame.
- Some cryptocurrencies are thinly traded.
- There may be significant variations in the price at which a cryptocurrency is concurrently being traded on various exchanges.
- The nature and extent to which cryptocurrency markets are regulated vary widely among jurisdictions. Often there is little regulation resulting, among other things, in lack of clarity as to how prices are reported.

If there has been a significant volume of recent trades of a cryptocurrency on exchanges, the trading prices might provide evidence of fair value. If there have been few or no recent trades, relevant observable inputs might include prices for buy or sell offers on a peer-to-peer exchange. However, there may be significant volumes of transactions for which the prices may not be readily available until a later date. For example, there are exchanges in which off-chain transactions are recorded temporarily in a private ledger until such time as the parties want the transaction to be recorded on a public blockchain. In addition, the entity might decide to use an economic model to estimate the fair value of a cryptocurrency.

Internal Control Considerations

The entity could implement policies and procedures related to valuations of cryptocurrency for financial reporting. These policies might require, for example, that the method of valuation and assumptions be made by competent personnel, and are reviewed and approved by personnel who are also not responsible for authorizing cryptocurrency transactions.

Conclusion

This paper is aimed at providing auditors with an initial awareness, at a high level, of various matters relevant to client acceptance and continuance and assessing risks of material misstatement related to cryptocurrency items in financial statements. As noted, a key matter for auditors to consider is whether the engagement team has the capabilities required to appropriately address the complex IT processes involved. Auditors may also wish to refer to other sources to explore in more depth the matters noted in this paper in order to be appropriately prepared to undertake audits involving material amounts of cryptocurrencies.

Appendix A — Where to Find More Information

This appendix provides links to additional resources that may be useful:

1. CPA Canada. *Technological Disruption of Capital Markets and Reporting? An Introduction to Blockchain*. www.cpacanada.ca/en/business-and-accounting-resources/other-general-business-topics/information-management-and-technology/publications/introduction-to-blockchain-technology
2. CPA Canada. *Blockchain Technology and Its Potential Impact on the Audit & Assurance Profession*. www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/impact-of-blockchain-on-audit
3. CPA Canada. *An Introduction to Accounting for Cryptocurrencies*. www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/international-financial-reporting-standards-ifs/publications/accounting-for-cryptocurrencies-under-ifs

Appendix B — Glossary of Terms

Blockchain

CPA Canada’s publication “*Technological Disruption of Capital Markets and Reporting? An Introduction to Blockchain*”, page 8 describes “*blockchain*” as a shared or “distributed” digital ledger of transactions over a network of participating computers. Since blockchain technology embeds peer-to-peer communications among the participating computers, the need for management of the network by a central third party such as a financial institution is eliminated. Computers participating in a blockchain use an automated process to validate the format of the transaction record to be included in the next “block”. Once this “consensus” is reached, the information is recorded in a block.

Blockchain (block) Explorer

A blockchain (block) explorer is used to obtain information from a blockchain in a form easily readable by humans (rather than machines). The information obtained and the format used vary by explorer. Typically, an entity would use a blockchain explorer to, for example, check address balances, track histories of coin transfers, determine whether a transaction has been accepted and confirmed, and obtain statistics on the performance of the blockchain (e.g., time taken to confirm transactions).

Blockchain Miner and Mining

A blockchain miner is an entity that engages in blockchain mining. Mining is the act of adding new transactions to the blockchain by solving algorithmic problems with computing resources. The transactions include purchases and

sales of cryptocurrency and the creation of new cryptocurrency. Miners may be awarded cryptocurrency fees for the computational effort they expend in order to support the network.

Cryptocurrency

The Collins English Dictionary defines a cryptocurrency as “a decentralized digital medium of exchange which is created, regulated and exchanged using cryptography and (usually) open-source software”. Descriptions of cryptocurrency sometimes emphasize its differences from fiat currency. For example, *pwc. IFRS news: Cracking the cryptocurrency code; or what is a ‘bitcoin’ anyway?* March 2017 states that “cryptocurrency represents a method of exchange that does not physically exist but rather exists digitally. Cryptocurrencies are not linked to any physical currency, nor are they backed by any government, central bank, legal entity, underlying asset or commodity.”

Cryptocurrency Broker

A type of cryptocurrency exchange where cryptocurrencies can be purchased at a price set by the broker operating the exchange.

Cryptocurrency Exchange

An online platform that provides a digital marketplace for buying and selling cryptocurrencies and in some cases, for exchanging cryptocurrencies for fiat currencies.

Cryptocurrency Wallet

A cryptocurrency wallet is a software program used to:

- store the entity’s private and public encryption keys used for cryptocurrency transactions
- interact with one or more blockchains to send and receive cryptocurrency
- show the entity’s balance in each cryptocurrency that results from the various transactions.

Digital Signature

The entity sending the cryptocurrency to the purchasing entity signs the transaction using a digital signature. The digital signature establishes that the sender has the private key to which its public key is linked, but without revealing that private key. The sender’s private key establishes its ownership of the cryptocurrency being sent (subject to verification by blockchain miners).



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PROFESSIONAL
ACCOUNTANTS
CANADA

277 WELLINGTON STREET WEST
TORONTO, ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585
WWW.CPACANADA.CA

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1
Meeting date: 6 December 2018
Subject: Professional and Ethical Standard 1
Date: 20 November 2018
Prepared by: Sharon Walker

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. The Board is asked to:
 - CONSIDER the feedback received in response to the exposure draft (ED) NZAuASB 2018-1 Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.
 - CONSIDER the proposed response to the feedback received.
 - APPROVE Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners, including International Independence Standards (New Zealand)*.
 - CONSIDER and APPROVE the signing memorandum and the Explanation of Decisions made.

Background

2. NZAuASB ED 2018-1 was issued for public comment in August 2018. The comment period closed on 2 November 2018.
3. Two submissions were received in response to the invitation to comment.
4. An analysis of the comments and our recommended response is included in the issues paper (agenda item 6.2)

Matters to Consider

5. The Board is asked to:
 - CONSIDER the feedback received in response to ED NZAuASB 2018-1 and the staff recommendations;
 - CONSIDER and APPROVE as final Professional and Ethical Standard 1;

- CONSIDER and APPROVE the signing memorandum and explanation for decisions made.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues Paper
Agenda item 6.2.1	Compelling reason test: conflicts of interest
Agenda item 6.3	Analysis of feedback
Agenda item 6.4	PES 1 marked from ED
Agenda item 6.5	Draft signing memorandum
Agenda item 6.6	Draft explanation of decisions made
Agenda item 6.7	CA ANZ submission
Agenda item 6.8	PwC submission

Issues paper:

PES 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

Submissions on ED NZAuASB 2018-1 were received from two respondents, PwC and CA ANZ.

Overall comments

1. CA ANZ expressed overall support for the ED, including support for convergence to international standards to the extent practicable, and modifications to the international standards where there is a compelling reason to do so.
2. CA ANZ has recommended bolding of the text of each requirement paragraph. This is the formatting for the proposed restructured New Zealand Code of Ethics issued by the New Zealand Regulatory Board. It is also the format of the Australian Code.
3. While noting that bold requirements may be useful to assist the reader in identifying the requirement paragraphs in the Code, complying with the Code requires knowing, understanding and applying:
 - All of the relevant provisions of a particular section in the context of Part 1 [of the Code], together with additional material set out in Sections 200, 300, 400 and 900, as applicable.
 - All of the relevant provisions of a particular section
 - All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.¹
4. The application material provides context relevant to a proper understanding of the Code. It is intended to help a 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.²
5. The ED follows the formatting of the International Code whereby requirement paragraphs are designated with the letter **R** and application paragraph are designated with the letter **A**. We recommend that the NZAuASB continue to follow the formatting of the International Code.

6. Does the Board agree to retain the formatting of the International Code?

Questions 1 & 2

7. Both respondents expressed agreement with the proposal to follow the International Code in relation to breaches of independence relating to other assurance engagements, including the application of professional judgement in determining with whom to communicate.

Question 3

8. Both respondents expressed agreement that the requirements of the International Code to communicate NOCLAR for other assurance engagements are appropriate.

¹ *Guide to the Code*, paragraph 9

² *Guide to the Code*, paragraph 15

9. CA ANZ, however, does not support the compelling reason amendment to align the NOCLAR framework for review engagements with the NOCLAR framework for audit engagements, refer to paragraph 40 for further discussion.

Question 4

10. PwC agrees that the International Code's application of the threats and safeguards approach is sufficient to achieve independence for other assurance engagements, noting that the extant rules-based approach only covered some independence threats for certain types of non-audit services.
11. CA ANZ expressed concern that the requirement to consider both independence of mind and independence in appearance is implicit through paragraph R900.14. In their view, it is important that the consideration is explicit as it is linked to the additional NZ requirement to look at threats in the aggregate.
12. The requirement to consider both independence of mind and independence in appearance are not new to the Code of Ethics. The wording of the additional NZ requirement to consider threats in the aggregate is based on the same addition in the APESB Code. No change is recommended.

Question 5

13. Both respondents expressed support for aligning the effective date with the International Code.
14. PwC also suggested adding a reminder that the changes to the provisions addressing the "long association of personnel with an assurance client" take effect for audits, review engagements and other assurance engagements for periods beginning on or after 15 December 2018, and as of the same date for other assurance engagements that do not cover a period.
15. The Handbook of the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the IESBA includes a summary of changes of substance from the previous edition which notes that the effective date of the restructured Code does not override the effective date of the revised long association provisions in extant Sections 290 and 291 (as set out in the January 2017 long association *close off document*).
16. In New Zealand, the amendments to the PES 1 (Revised), in respect of long association and the public interest entity definition have been issued as a final standard and will become effective for periods beginning on or after 15 December 2018. We expect that the new PES 1 will not be gazetted until around this time, and therefore the amended PES 1 (Revised) will be in effect. Accordingly, for simplicity, we recommend not adding a reminder that the long association provisions are effective.

- | |
|---|
| 17. Does the Board agree not to include a reminder of the long association effective date in the restructured Code? |
|---|

Question 6

18. PwC did not identify any of the new requirements, aligned with the International Code, as posing specific challenges or being inappropriate in the New Zealand Context.
19. CA ANZ expressed concern that the International Independence Standards contain some overly specific exemptions that appear to contradict the conceptual framework (for example, the exemptions from paragraphs R524.6 and R524.7 in paragraph R524.8). It may be overlooked that these are still subject to the fundamental principles and the conceptual framework still needs to be applied.

20. Each Section of the Code contains a reminder to the assurance practitioner to comply with the fundamental principles, be independent and apply the conceptual framework. No changes are proposed in this regard.

21. Does the Board agree that no specific challenges or inappropriate requirements have been identified in the New Zealand context?

Question 7

22. See the analysis below from paragraph 33 for disposition of the more significant comments on the New Zealand specific paragraphs. Pages 5-12 of the analysis of comments (agenda item 6.3) address all comments in detail.

Question 8

23. No weaknesses or gaps in the ED that need to be addressed in the New Zealand context were identified. Editorial comments identified have been addressed.
24. CA ANZ noted that they do not believe it is appropriate for paragraph R310.13 on documentation to be referred to a paragraph which does not address documentation. Accordingly, the wording “Refer to NZ R310.12.1” has been deleted.

Question 9

25. CA ANZ has identified that the NZX Listing Rules require the audit engagement partner (key audit partner) to be changed at least every five years. The long association provisions of the Code assume a time on period of seven years which may be taken to mean there is no cooling off period after a five year time on period for listed issuers.
26. The ED specifies, “in respect of an audit or review of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):
- a. The engagement partner;
 - b. The individual appointed as responsible for the engagement quality control review; or
 - c. Any other key audit or key assurance 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.”

27. We note that the seven year time-on period in the ED is a maximum, however, we agree that there could be some confusion where law or regulation requires a shorter time on period.
28. Extant PES 1 (Revised), paragraph 290.149, contains a footnote which reads, “In certain situations a shorter rotation period may be required in regulations (for example, NZX and Corporate Governance in New Zealand Principles and Guidelines: A Handbook for Directors, Executives and Advisers).” This footnote was not retained in the recently approved revisions to the long association provisions, pending revision to the NZX listing requirements. We recommend that a similar footnote be added to the Code to clarify that in some circumstances the time on period may be less than seven years. Refer to paragraph R540.5.
29. The Auditor Rotation FAQs available on the XRB [website](#) provide guidance on this matter. This is found under the heading of “what are the differences between the rotation requirements in New Zealand and Australia?” and addresses both the time on and the cooling off period.

30. Does the Board agree with the addition of a footnote to R540.5 to clarify that in some circumstances the time on period may be less than seven years?
31. Does the Board agree that the Auditor Rotation FAQ is clear in relation to this concern?

Question 10

32. Both respondents made suggestions on areas of improvement to pass on to the IESBA. Notwithstanding the improvements made in relation to the enforceability of the Code, CA ANZ indicated that using subjective wording, such as, “knowingly” or “the professional accountant considers,” tends to weaken enforceability and recommends that such wording should be avoided [in relation to the reasonable and informed third party test].

Paragraph specific comments

Section 310 *Conflicts of Interest*

33. PwC questioned the appropriateness of the compelling reason changes to section 310, specifically,
- a. the requirements in NZ R310.9.1-2 addressing the need to disclose the nature of the conflict of interest and related safeguards to the client/potential client and to when safeguards are required to reduce the threat to an acceptable level, to obtain the client’s consent to the assurance practitioner performing the service.
 - b. The requirement in NZ R310.12.1 requiring the assurance practitioner to end or decline the engagement where adequate disclosure is not possible by reason of constraints of confidentiality.
34. In relation to NZ R310.9.1-2, PwC expressed the view that the assurance practitioner should be able to apply professional judgement on the nature and significance of the conflict of interest and the necessary disclosures and consent. In their view, paragraph R310.9, which states, “an assurance practitioner shall exercise professional judgement to determine whether the nature and significance of a conflict of interest are such that specific disclosure and consent are necessary when addressing the threat created by the conflict”, is a sensible way to address this.
35. PwC also noted that the intent of the ED (as described in paragraph 54 of the ITC³) to require disclosure in writing to a client or a potential client where a conflict has been identified is unclear. Accordingly, in the final standard, the words “in writing” have been added to paragraphs NZ R310.9.1-2 and paragraph 310.9 A4 has been deleted.
36. In relation to NZ R310.12.1, PwC expressed concern that the requirement to end or decline the relevant assurance engagement may not be practicable for a specific territory in large network firms providing assurance and non-audit services where the services may be agreed on a global basis. In their view, the International Code, paragraph R310.12 requiring the assurance practitioner to exercise professional judgement in whether or not to accept an assurance engagement, and paragraph 310.12 A1 providing examples of safeguards that may be appropriate, is a sensible way of addressing this situation, even in small countries like New Zealand.

³ Paragraph 54 of the ITC states, “Proposed PES 1 includes stricter requirements for dealing with conflicts of interest than the International Code. Paragraph R310.9 and paragraph 310.9 A3 have been deleted. Paragraph 310.9 A4 is replaced by NZ R310.9.1. The ED always requires the disclosure in writing to a client or a potential client where a conflict of interest has been identified.”

37. The compelling reason for making these changes to the International Code, carried forward from extant PES 1 (Revised), is that disclosure and a transparent process for handling conflicts of interest are always considered appropriate. Managing conflicts of interest in a small country like New Zealand is inevitable and has resulted in stricter requirements than in the International Code. New Zealand best practice has emerged to address these conflicts through guidance issued by the Institute of Directors and the Office of the Auditor General. The compelling reason test form has been completed and included at agenda item 3.2.1 for the Board's consideration.

38. Does the NZAuASB agree that the compelling reason test continues to be met in respect of these requirements?

39. Does the NZAuASB agree with the addition of the words "in writing" to paragraphs NZ R310.9.1-2 and the deletion of paragraph 310.9 A4?

Non Compliance with Laws and Regulations

40. CA ANZ has questioned whether it is appropriate to expand the NOCLAR requirements for audit engagements to apply also to review engagements. The New Zealand legislative environment only allows for "medium" registered charities to have their financial statements reviewed rather than audited. On this basis, CA ANZ is not convinced that this alone is compelling enough to justify modification of the International Code.

41. The NZAuASB view that it is in the public interest for assurance practitioners to respond in the same manner to identified or suspected NOCLAR regardless of whether an audit or review engagement is being performed.

42. Does the NZAuASB continue to hold the view that it is in the public interest for audit and review frameworks for NOCLAR to be aligned?

Functionality of the Code

43. There are a number of initiatives underway currently to enhance the functionality of the Code of Ethics. The IESBA is exploring ways to create an E-Code. The APESB has recently issued its [revised Code of Ethics](#) in an interactive PDF format. Features of the [new APESB Code](#) include:

- Bookmarks Tab section for Table of Contents
- Dynamic links to sections and sub-sections
- Pop-up definitions upon mouse rollover for defined terms
- Links to external websites

44. We are also considering how to make PES 1 more functional and interactive for our users. In addition to the features in the APESB Code, we have also identified pop-up footnotes to be useful.

45. Does the Board support the development of an interactive Code? What features would you find most useful?

Compelling Reason Test: Conflicts of Interest

Modification: Stricter requirements dealing with conflicts of interest.

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>Amend the International Code to require:</p> <ul style="list-style-type: none"> disclosure in writing to a client or potential client where a conflict of interest has been identified that requires the application of safeguards to eliminate the threat or reduce it to an acceptable level. NZ R310.9.1 is added, 310.9 A3 is deleted; client consent in writing when safeguards are required to reduce the threat to an acceptable level. NZ R310.9.2 is added, 310.9 A3 is deleted; the assurance practitioner end or decline the assurance engagement where adequate disclosure is not possible due to constraints of confidentiality. R310.12 and 310.12 A1 are deleted. NZ R310.12.1 is added. <p>Additionally,</p> <ul style="list-style-type: none"> paragraph R310.13 (documentation requirement) is deleted as the circumstances to which the documentation requirement apply (R310.12) are no longer applicable. paragraph 310.9 A4 is deleted as disclosure and consent are required to be in writing (NZ R310.9.1-2) 	
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	Reflecting current NZ practice, disclosure and a transparent process for handling conflicts of interest are always considered appropriate. NZ best practice has emerged to address conflicts through guidance issued by the Institute of Directors and the Office of the Auditor General.
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	Managing conflicts of interest in a small country like NZ is inevitable. Best practice has emerged to address conflicts through guidance issued by the IOD and the OAG. This best practice has been incorporated into the new PES 1.
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>	Modifications promote consistent application by practitioners by requiring: <ul style="list-style-type: none"> • communication in writing when a conflict of interest has been identified; • consent in writing of client agreement when safeguards are applied; • ending or declining the assurance engagement where adequate disclosure is not possible due to constraints of confidentiality
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>	Modifications promote disclosure and a transparent process for handling conflicts of interest, thereby improving 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).	We recognise that there will be some cost of implementation, however, those costs are expected to be around the requirement to disclose and obtain consent <i>in writing</i> , rather than in disclosing and obtaining consent themselves and therefore are not expected to be significant.
5. The modification does not conflict with or result in lesser requirements than the international standard.	The modifications result in a stricter requirement than the International Code.
6. The proposed modification overall does not result in the	We do not believe the modifications result in the standard being overly complex and confusing.

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.	We do not believe the modifications 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. We believe that the requirement is best practice and would be expected by the intent of the international standard.
Conclusion	Compelling reason test met.

Analysis of Comments received on ED NZAuASB 2018-1: PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

Respondent	Comment	Staff Response
Overall comments		
CAANZ	We appreciate the opportunity to provide feedback on the above exposure draft ("the ED"). We support international convergence to the extent practicable, but we support modifications where there is a compelling jurisdiction specific reason.	Noted
CAANZ	As an overall comment, we recommend bolding the text of each requirement paragraph (those designated with the letter "R") to make the mandatory obligations clearer. We are proposing to do this in our restructured New Zealand Code of Ethics, and we believe the APESB is doing the same in APES 110.	No change recommended, see issues paper, paragraphs 1-5.
Question 1 Do you agree with the proposal to follow the International Code in relation to breaches of independence relating to other assurance engagements? If not, please explain why not.		
CAANZ	We agree with the proposal to follow the International Code in relation to breaches of independence relating to other assurance engagements. Although see our comment below in relation to paragraph NZ 400.2.1 in terms of the scope of Parts 4A and 4B and what constitutes an 'other assurance engagement'.	Agreement noted.
PwC	We agree with the proposal to follow the requirements in R900.50 to R900.55 of the International Code in relation to breaches of independence relating to other assurance engagements. In our view, clients would expect independence breaches in other assurance engagements to be treated as seriously as independence breaches in audit or review engagements and the International Code's principles based approach effectively achieves this.	Agreement noted.
Question 2 More specifically, do you consider that the International Code's requirements to use professional judgement when communicating breaches of independence for other assurance engagements are appropriate, given the varying nature of other assurance engagements? If not, please explain why not.		
CAANZ	We consider it is appropriate for assurance practitioners to use their professional judgement in determining with whom to communicate a breach of independence when conducting an other assurance engagement.	Agreement noted.
PwC	We agree with the requirements in R900.51 and R900.52 of the International Code to use professional judgement when communicating breaches of independence for other assurance engagements is	Agreement noted.

	appropriate based on our experience with the varying types of responsible parties and intended users for the other assurance engagements performed by our firm.	
Question 3 Do you agree that the requirements of the International Code to communicate NOCLAR for other assurance engagements, as proposed in the ED, is appropriate? If not, please explain why not.		
CAANZ	We believe the requirements of the International Code are appropriate in this regard on the basis that they are consistent with the principles for reporting breaches of independence relating to other assurance engagements. Similarly we consider it is appropriate for an assurance practitioner to use their professional judgement in determining with whom to communicate NOCLAR for other assurance engagements.	Agreement noted.
PwC	We agree with the requirements in R360.30 of the International Code and in the ED for communicating NOCLAR for other assurance engagements to the appropriate level of management, and those charged with governance where it is appropriate to do so. In our view, those charged with governance would expect to have these matters communicated to them, if it is appropriate to do so.	Agreement noted.
Question 4 Do you agree that the International Code's application of the threats and safeguards approach is sufficient to achieve independence for other assurance engagements? If not, please explain why not.		
CAANZ	We are concerned that the requirement to consider both independence of mind and independence in appearance (paragraph 900.4 and equivalent paragraphs elsewhere) is just implicit through paragraph R900.14. In our view it is important that this is explicit as it is linked to the additional requirement to look at threats in the aggregate (NZ R900.15.1 and equivalent paragraphs elsewhere) and the interpretation of the 'spirit' of the Code (paragraph NZ1.4).	Code requires the firm to be independent. 900.4 states that independence is made up of independence of mind and independence in appearance. NZ1.4 is included in the NZ scope and application section. It is based on the same wording of the APESB Code. ED is consistent with the International Code and APESB Code. No change recommended.

PwC	We agree the International Code's application of the broader threats and safeguards approach is sufficient to achieve independence for other assurance engagements. In our view, this is more appropriate than the extant rules-based approach which only covered some independence threats for certain types of non-audit services.	Agreement noted
Question 5 Do you agree that aligning the proposed effective date with the effective date of the International Code? If not, please explain why not.		
CAANZ	We agree that it is desirable for the effective date to be aligned with the effective date of the International Code.	Agreement noted.
PwC	We agree with aligning the proposed effective date for the ED with the effective date of the International Code. However, we recommend adding a reminder into the paragraph on the Effective date about the changes to the provisions addressing the "long association of personnel with an assurance client" that take effect for audits, review engagements and other assurance engagements for periods beginning on or after December 15, 2018 and as of the same date for other assurance engagements that do not cover a period.	Agreement noted. See issues paper, paragraphs 13-16. Additional wording not recommended.
Question 6 Do you consider that any of the new requirements which align with the International Code requirements pose specific challenges or are not appropriate in the New Zealand context? If so, please provide details.		
CAANZ	We note the International Independence Standards contain some overly specific exemptions that appear to contradict the conceptual framework, which requires consideration of all the circumstances rather than just a simplistic rule. For example the exemptions from paragraphs R524.6 and R524.7 in paragraph R524.8. We are concerned that it may be overlooked that these are still subject to the fundamental principles and the conceptual framework still needs to be applied.	Issues paper, paragraphs 18-20 Each Section contains a reminder to comply with the fundamental principles, be independent and apply the conceptual framework. No change is recommended.
PwC	We do not think any of the new requirements which align with the International Code requirements pose specific challenges or are inappropriate in the New Zealand context.	Agreement noted.
Question 7 Do you agree with the addition of the New Zealand paragraphs and the differences to the International Code? If not, please provide details on the specific provisions and reasons why you disagree with the addition.		

CAANZ	We commend the NZAuASB for taking this opportunity to re-examine whether the extant New Zealand paragraphs continue to meet the compelling reason test. The following table sets out our comments on each of the proposed NZ paragraphs.	See paragraph specific analysis.
PwC	Our detailed comments on the additional NZ paragraphs and the differences to the International Code are set in the Appendix to this letter.	See paragraph specific analysis.
Question 8 Do you consider there are any weaknesses or gaps in the proposals that need to be addressed in the New Zealand context? If so, please provide details.		
CAANZ	We do not believe it is appropriate for paragraph R310.13 on documentation to be referred to a paragraph which does not address documentation. We believe it is better addressed as a NZ paragraph that reads along the lines of <i>“The assurance practitioner is encouraged to document all matters set out in this section.”</i>	Reference to NZ R310.12.1 deleted. Because, R310.12 is deleted and replaced by NZ R310.12.1, the circumstances referred to in R310.12 do not exist and therefore there is no need for a documentation requirement.
CAANZ	Proposed paragraphs R310.12, 310.12 A1 and R310.13 are deleted by the NZAuASB and refer to NZ R310.12.1 – which does not exist. We assume this should be NZ R310.12.	Reference corrected
CAANZ	In the contents page (first page of the ED) there is a spelling error in ‘independence’.	corrected
CAANZ	The definition of “assurance team” is the same as the International Code, therefore should not be prefixed with [NZ].	corrected
PwC	We are not aware of any weaknesses or gaps in the ED that need to be addressed in the NZ context.	Agreement noted.
Question 9 Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposals? If so, please provide details.		
CAANZ	Section 3.6.3(f) of the extant NZX Listing Rules (and section 2.13.3(f) of the revised NZX Listing Rules effective 1 January 2019) require the audit engagement partner (key audit partner in revised rules) to be <i>“changed at least every five years”</i> (a cooling-off period is not specified). The cooling-off period requirements in proposed paragraphs R540.11-13 all assume a time-on period of seven years which may be taken to mean there is no cooling-off period after a five year time-on period for listed issuers. We	Issues paper, paragraphs 25-29

	recommend these paragraphs be amended to “seven cumulative years or a shorter rotation period where required in regulations” or by the addition of a footnote similar to that in paragraph 290.149 of extant PES 1.	
PwC	We are not aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the ED.	Noted
Question 10 Are there any issues arising from the proposed Code that you consider the NZAuASB should raise with the IESBA when the International Code is next updated? If so, please provide details.		
CAANZ	We acknowledge and support the improvements the IESBA has made in relation to enforceability of the International Code. We also consider use of the “reasonable and informed third party test” to be generally positive for enforceability. However, we consider it important that the test be applied consistently with the use of objective wording. Subjective wording such as “knowingly” or “the professional accountant considers” tends to weaken enforceability and should be avoided.	Views will be passed on to IESBA.
PwC	We do not think there are any significant issues arising from the proposed Code that the NZAuASB should raise with the IESBA when the International Code is next updated. We do have two minor suggestions for drafting changes to the International Code which we have included in the Appendix.	Views will be passed on to IESBA.

Agenda Item 6.3

Comments on specific paragraphs

Respondent	Paragraph	Text	Comments	Staff Response
CAANZ	NZ 114.1 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.	<p>We recommend removing the first sentence which is confusing and not entirely accurate.</p> <p>We also recommend amending the wording of the end of the second sentence to; “An assurance practitioner considering disclosing confidential information about a client without their consent <i>may consider first obtaining legal advice</i>”.</p>	Wording as drafted is consistent with the finalised APESB Code of Ethics. No changes recommended.

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Respondent	Paragraph	Text	Comments	Staff Response
CAANZ	NZR 120.4 NZ R300.5	When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical standards that apply to these circumstances.	<p>If there is a compelling reason to include this paragraph, we believe it would assist application if some examples of 'other ethical standards' were provided. For instance; the Code of Ethics promulgated under section 7 of the New Zealand Institute of Chartered Accountants Act 1996, or APES 110 <i>Code of Ethics for Professional Accountants</i> issued by the APESB.</p> <p>Also we note that the reference drafting is inconsistent, it should be NZ R120.4.</p>	<p>This paragraph is amended in NZ because we do not include Part 2 of the Code (to which the original paragraph refers) in PES 1.</p> <p>Reference to "other ethical standards" was intentionally not specific to the NZICA Code as the assurance practitioner may be a member of a body other than NZICA.</p> <p>We are intending to clarify the application of this requirement by an FAQ.</p>

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Respondent	Paragraph	Text	Comments	Staff Response
	NZ R310.9.1	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 related safeguards, if any, to all clients or potential clients affected by the conflict.	If there is a compelling reason to include these paragraphs we suggest that reference be made to “ <i>measures or safeguards</i> ” to reflect that paragraph 310.8 A2 talks about ‘measures’ and paragraph 310.8 A3 refers to ‘safeguards’.	Paragraph 310.8 A2 uses measures in relation to the evaluation of the level of the threat. When threats are not at an acceptable level, the assurance practitioner is required to eliminate the threat, apply safeguards to reduce the threat to an acceptable level or to withdraw from the engagement. Change not made.
CAANZ	NZ R310.9.2	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.		As above

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Respondent	Paragraph	Text	Comments	Staff Response
PwC	NZ R310.9.1 and NZ R310.9.2		<p>Paragraph 54 of the Invitation to Comment states that paragraphs R310.9 and 310.9 A4 of the International Code have been deleted from the ED. However, these paragraphs are still included in the ED, so there is some inconsistency here.</p> <p>While we acknowledge the stricter position in extant PES 1, our view is the assurance practitioner should be able to apply professional judgement on the nature and significance of the conflict of interest and the necessary disclosures and consent and R310.9 is a sensible way to address this.</p> <p>NZ R310.9.1 and NZ R310.9.2 does not specifically require consent to be in writing which could be open to interpretation on how consent is obtained if the intent is that it is always in writing.</p>	<p>Noted. Paragraph 310.9 A3 is the paragraph deleted, which states: It is generally necessary:</p> <ul style="list-style-type: none"> (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. <p>310.9 A3 is replaced by NZ R310.9.1-2</p> <p>Issues paper, paragraphs 33-37</p> <p>The intent of the ED is that disclosure and consent is required in writing. NZ R310.9.1-2 have been amended to reflect this. Additionally, 310.9 A4 has been deleted.</p>

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Respondent	Paragraph	Text	Comments	Staff Response
PwC	NZ R310.12		The requirement to <i>end or decline the relevant assurance engagement</i> where adequate disclosure by reason of constraints of confidentiality cannot be achieved, may not be practicable for a specific territory in large network firms providing assurance and non-audit services where the services may be agreed on a global basis. In our view, the wording in the International Code for R310.9 which requires the Assurance Practitioner to exercise professional judgement in whether or not to accept an assurance engagement, and R310.12 and R310.12 A1 which prescribes appropriate safeguards, is a sensible way of addressing this situation, even in small countries like New Zealand.	Issues paper, paragraphs 33-37 This stricter position is based on current best practice in NZ, based on guidance issued by the IOD and OAG. Disclosure and a transparent process for handling conflicts of interest are always considered appropriate.
CAANZ	NZ R330.5	An assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with an assurance engagement.	We note these paragraphs differ to those in proposed restructured APES 110 (paragraphs AUST R330.5.2 and AUST 330.5.2 A1 respectively). We support trans-Tasman harmonisation to the extent practicable.	The relevant paragraphs in the International Code that are replaced refer to both commissions and referral fees, therefore we consider that it is appropriate to maintain the context of this section. While not the same, the requirement is consistent with the APESB Code. No change made.

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Respondent	Paragraph	Text	Comments	Staff Response
CAANZ	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.		As above
CAANZ	NZ R360.10.1 NZ R360.15.1 NZ R360.16.1 NZ 360.16 A1 NZ R360.17.1 NZ R360.18.1 NZ 360.28 A1.1	NOCLAR – to expand the requirements for audit engagements to also apply to review engagements.	The New Zealand legislative environment only allows for “medium” ¹ registered charities to have their financial statements reviewed rather than audited. We are not aware of any other such legislation. On this basis we are unconvinced that this alone is compelling enough to justify modification to the International Code.	Issues paper, paragraphs 40-41
CAANZ	NZ R360.29.1 NZ R360.31.1 NZ R360.32.1 NZ R360.33.1	NOCLAR – to change from ‘Professional Services Other than Audits of Financial Statements’ to ‘Assurance Services Other than Audits and Reviews of Financial Statements’	As mentioned above – we do not support a modification to the International Code in this regard.	Issues paper, paragraphs 40-41

¹ As defined in [section 42D\(1\)\(b\) of the Charities Act 2005](#)

Agenda Item 6.3

Respondent	Paragraph	Text	Comments	Staff Response
Definitions			<p>The definition of “Firm” on page 186 should be amended to refer to “assurance practitioners” rather than “professional accountants”.</p> <p>The reference to “Professional Accountants in Public Practice” under the definition of “Non Compliance with Laws and Regulations” on page 188 may need to be deleted.</p>	<p>Definition amended</p> <p>Amended</p>

Minor suggestions for the next update of the International Code which are also relevant for the ED

	Paragraph	Comment/observation
PwC	410.7	<p>Paragraphs 410.3 to R410.6 refer to an independence threat from the relative size of fees and the text of these paragraphs refers to <i>total fees</i>.</p> <p>Paragraph 410.7 refers to the independence threats from overdue fees. We suggest this paragraph could be clarified to state whether it is only referring to audit/review fees or whether it refers to total fees, to minimise the risk of any misunderstanding. This comment also applies to paragraph 905.4 A1 for assurance engagements other than audits and reviews.</p>



PROFESSIONAL AND ETHICAL STANDARD 1

International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)

This Standard was issued on xx December 2018 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on xx January 2019.

An assurance practitioner that is required to apply this Standard is required to apply it as follows:

- Parts 1 and 3 will be effective as of 15 June 2019.
- Part 4A relating to independence for audit and review engagements will be effective for periods beginning on or after 15 June 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 15 June 2019; otherwise it will be effective as of 15 June 2019.

Paragraph R540.19 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023.

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

This Standard has been issued as a result of the issue of the International Code of Ethics for Professional Accountants, including International Independence Standards by the International Ethics Standards Board for Accountants.

This Standard, when applied, supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*.

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PROFESSIONAL AND ETHICAL STANDARD 1

INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)*Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

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History of Amendments

Table of pronouncements – PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

This table lists the pronouncements establishing and amending PES 1.

Pronouncements	Date approved	Effective date
PES 1, <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>	December 2018	PES 1 is effective on 15 June 2019 or for periods beginning on or after 15 June 2019.

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, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (“the Code”) sets out fundamental principles of ethics for assurance practitioners, reflecting the profession’s recognition of its public interest responsibility. These principles establish the standard of behaviour expected of an assurance practitioner. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
2. The Code provides a conceptual framework that 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 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.
 - [Part 2 – *deleted by the NZAuASB*]
 - Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, which sets out additional material that applies to assurance practitioners when providing assurance services.
 - *International Independence Standards (New Zealand)*, which sets out additional material that applies to assurance practitioners 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.
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 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 judgement, 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 recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, or the firm, might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the 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 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 assurance practitioner takes that effectively reduce threats to an acceptable level.
8. In addition, the Code requires 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 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 or Review Clients" together with additional specific provisions, including those set out under the subheadings titled "Audit or Review Clients that are not Public Interest Entities" or "Audit or Review 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.

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 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.

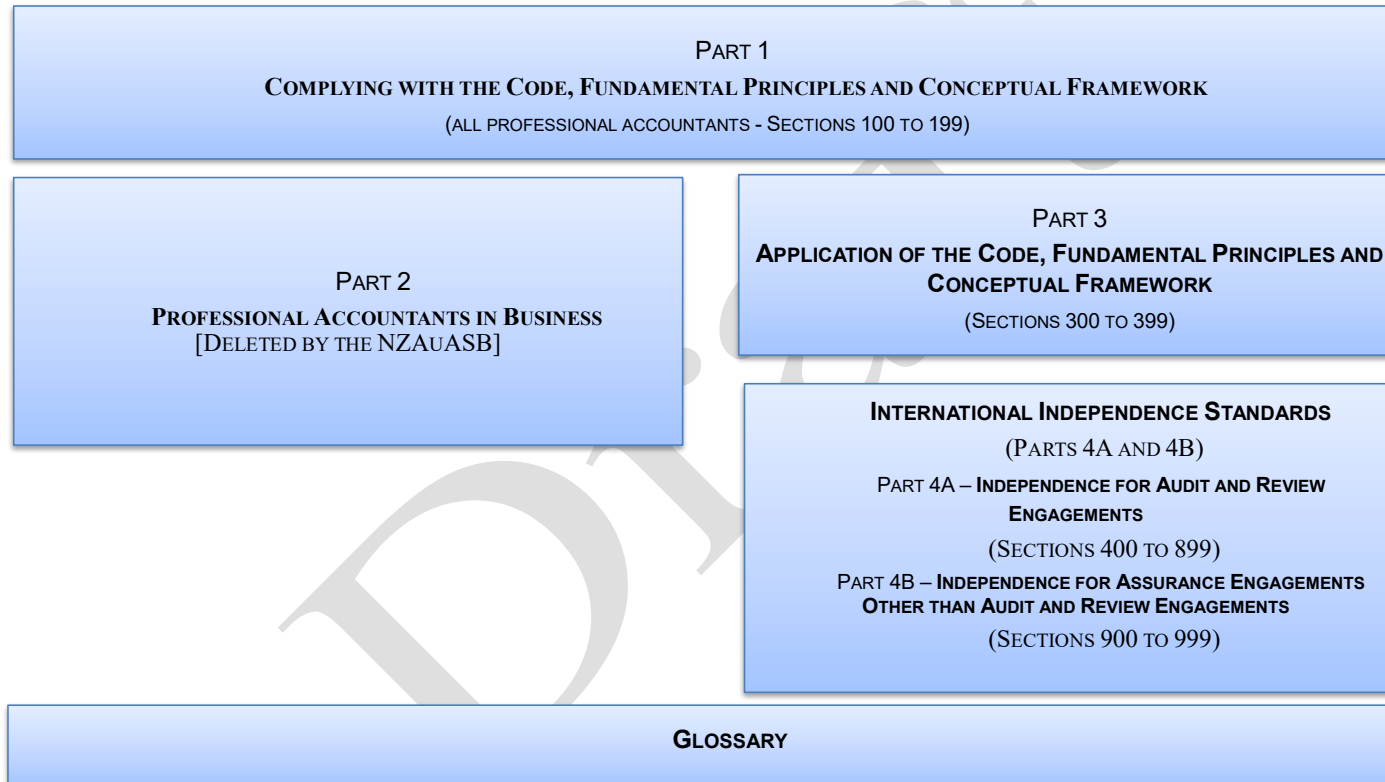
Application Material

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 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



PROFESSIONAL AND ETHICAL STANDARD 1

INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

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NEW ZEALAND PREFACE

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, 4A and 4B 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.

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 reduce 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 to an acceptable level given the likely closeness of relationships of staff within small firms.

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}~~ 15 June 2019 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.

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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 responsibility is not exclusively to satisfy the needs of an individual client. Therefore, the Code contains requirements and application material to enable assurance practitioners to meet their responsibility to act in the public interest.
- 100.2 A1 The requirements in the Code, designated with the letter "R," impose obligations.
- 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 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.
- R100.3** An assurance practitioner shall comply with the Code. There might be circumstances where laws or regulations preclude an assurance practitioner from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the assurance practitioner shall comply with all other parts of the Code.
- 100.3 A1 The principle of professional behaviour requires an assurance practitioner to comply with relevant laws and regulations.
- 100.3 A2 An assurance practitioner might encounter unusual circumstances in which the 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 assurance practitioner is encouraged to consult with a professional or regulatory body.

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 who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the assurance practitioner's ability to comply with the fundamental principles. The assurance practitioner shall also:
- (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.

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SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

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

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – not to compromise professional or business judgements 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 receives competent assurance services, based on current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board 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.
- (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 assurance practitioner knows or should know might discredit the profession.

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

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner. The conceptual framework establishes the approach which an 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.

110.2 A2 An assurance practitioner 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 assurance practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the assurance practitioner from the responsibility to exercise professional judgement 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 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.

SUBSECTION 111 – INTEGRITY

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

- 111.1 A1 Integrity implies fair dealing and truthfulness.

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

- (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 provides a modified report in respect of such a report, return, communication or other information, the assurance practitioner is not in breach of paragraph R111.2.

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

SUBSECTION 112 – OBJECTIVITY

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

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

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

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

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance service, based on standards issued by the External Reporting Board, the New Zealand Auditing and

Assurance Standards Board and the New Zealand Accounting Standards Board 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.

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

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 to develop and maintain the capabilities to perform competently within the assurance environment.

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

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

R113.3 Where appropriate, an assurance practitioner shall make clients, or other users of the assurance practitioner's assurance services, aware of the limitations inherent in the services.

SUBSECTION 114 – CONFIDENTIALITY

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

- (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;
- (b) Maintain confidentiality of information within the firm;
- (c) Maintain confidentiality of information disclosed by a prospective client;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the assurance practitioner or for the advantage of a third party;
- (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 assurance practitioner's control, and individuals from whom advice and assistance are obtained, respect the assurance practitioner's duty of confidentiality.

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

- (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 authorised by the client; 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 enquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of an assurance practitioner in legal proceedings; or
 - (iv) To comply with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

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.

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

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client consents to the disclosure of information by the assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - 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 shall continue to comply with the principle of confidentiality even after the end of the relationship between the assurance practitioner and a client. When acquiring a new client, the assurance practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

R115.1 An assurance practitioner shall comply with the principle of professional behaviour, which requires an assurance practitioner to comply with relevant laws and regulations and avoid any conduct that the assurance practitioner knows or should know might discredit the profession. An assurance practitioner 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.

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.

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

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the assurance practitioner; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

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

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

- 120.1 The circumstances in which assurance practitioners operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist assurance practitioners 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 assurance practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for an assurance practitioner to:
- (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 assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*; and
 - (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 [Amended by the NZAuASB. Refer to NZ_R-120.4.1]

NZ_R-120.4.1 When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical standards that apply to these circumstances.

- R120.5** When applying the conceptual framework, the assurance 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.

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 assurance activities, and the interests and relationships involved. In relation to undertaking assurance activities, the exercise of professional judgement is required when the assurance 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.
- 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.
- 120.5 A3 In exercising professional judgement to obtain this understanding, the assurance 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 assurance practitioner.
 - There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.
 - The 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 assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.
 - There might be other reasonable conclusions that could be reached from the available information.

Reasonable and Informed Third Party

- 120.5 A4 The reasonable and informed third party test is a consideration by the 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 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

assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.

Identifying Threats

R120.6 The assurance practitioner shall identify threats to compliance with the fundamental principles.

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 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 that can enhance the 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.

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 might differ and, consequently, different types of threats might be created.

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

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner's judgement or behaviour;
- (b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made; or an activity performed by the assurance practitioner, or by another individual within the assurance practitioner's firm, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that an assurance practitioner will promote a client's position to the point that the assurance practitioner's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, an 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 will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the 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.

Evaluating Threats

R120.7 When the assurance practitioner identifies a threat to compliance with the fundamental

principles, the assurance practitioner shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

120.7 A1 An acceptable level is a level at which an assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

120.8 A1 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.

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:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the assurance practitioner and the general public to draw attention to unethical behaviour.
- 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 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 assurance practitioner shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the 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 assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the assurance practitioner

shall address the threats by eliminating them or reducing them to an acceptable level. The assurance practitioner shall do so by:

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

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

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

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

Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.12 A1 Assurance practitioners 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 judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (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 scepticism has been compromised.

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. 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.

Professional Scepticism

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

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

- *Integrity* requires the assurance practitioner to be straightforward and honest. For example, the 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 enquiries 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.

In doing so, the assurance practitioner demonstrates the critical assessment of audit evidence that contributes to the exercise of professional scepticism.

- *Objectivity* requires the assurance practitioner not to compromise professional or business judgement because of bias, conflict of interest or the undue influence of others. For example, the assurance practitioner complies with the principle of objectivity by:
 - (a) Recognising circumstances or relationships such as familiarity with the client, that might compromise the assurance practitioner's professional or business judgement; and
 - (b) Considering the impact of such circumstances and relationships on the assurance practitioner's judgement when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

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

- Professional competence and due care requires the assurance 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 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 assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

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PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK

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.
- 300.2 The requirements and application material that apply to assurance practitioners are set out in:
- Part 3 – *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.

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.
- R300.5** *[Deleted by the NZAuASB. Refer to NZ R300.5]*
- NZ R300.5** When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner,

the individual shall comply with any other ethical provisions that apply to these circumstances.

300.5 A1 Examples of such situations include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the assurance practitioner might benefit financially from the contract.
- Preparing or presenting financial information for the assurance practitioner's client or firm.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement.

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 when undertaking an assurance service:

(a) Self-interest Threats

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

(b) Self-review Threats

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

(c) Advocacy Threats

- An assurance practitioner promoting the interests of, or shares in, a client.

- An assurance practitioner acting as an advocate on behalf of a client in litigation or disputes with third parties.
 - An assurance practitioner lobbying in favour of legislation on behalf of a client.
- (d) Familiarity Threats
- An assurance practitioner 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 being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
 - An assurance practitioner feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
 - An assurance practitioner being informed that a planned promotion will not occur unless the assurance practitioner agrees with an inappropriate accounting treatment.
 - An assurance practitioner 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:

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

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

The Client and its Operating Environment

300.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is:

- (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 evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- 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 evaluation of the level of a threat might be impacted by the systems and procedures within the assurance practitioner's firm and its operating environment. For example:

- 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:

- (a) Impact the level of a threat; or
- (b) Affect the 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 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:

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

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.

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:

- 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 assurance services and include examples of actions that might address threats.

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.

Communicating with Those Charged with Governance

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 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.

300.9 A1 In determining with whom to communicate, an assurance practitioner might consider:

- (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.

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.

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 assurance practitioner has satisfied the requirement to communicate with those charged with governance.

SECTION 310

CONFLICTS OF INTEREST

Introduction

- 310.1 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.
- 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:
- (a) An assurance practitioner 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 with respect to a particular matter and the interests of the assurance client for whom the 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 provides an audit, review or other assurance service, independence is also required in accordance with *International Independence Standards (New Zealand)*.

Requirements and Application Material

General

- R310.4** An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.
- 310.4 A1 Examples of circumstances that might create a conflict of interest include:
- 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

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, an assurance practitioner 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 service and its implication for relevant parties.

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

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

- The nature of the 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*.

Changes in Circumstances

R310.6 An assurance practitioner 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.

310.6 A1 The nature of services, interests and relationships might change during the engagement.

This is particularly true when an assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the assurance practitioner initially might not be involved in a dispute.

Network Firms

R310.7 If the firm is a member of a network, an assurance practitioner shall consider conflicts of interest that the assurance practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

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

- The nature of the 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.

310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorised 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:

- 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:

- 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 judgements and conclusions are appropriate.

Disclosure and Consent

General

R310.9 An assurance practitioner ~~professional accountant~~ shall exercise professional judgement 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.

NZ R310.9.1 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, in writing, the nature of the conflict of interest and related safeguards, if any, to all clients or potential clients affected by the conflict.

NZ R310.9.2 When safeguards are required to reduce the threat to an acceptable level, the assurance practitioner shall obtain, in writing, the client's consent to the assurance practitioner performing the assurance services.

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.

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

310.9 A3 *[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2]*

310.9 A4 ~~*[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2]*~~ If such disclosure or consent is not in writing, the assurance practitioner is encouraged to document:

- (a) ~~The nature of the circumstances giving rise to the conflict of interest;~~

Commented [SW1]: Refer to issues paper, paragraphs 33-37

Commented [SW2]: Refer to issues paper, paragraphs 33-37

(b) The safeguards applied to address the threats when applicable; and

~~(e)(a) The consent obtained.~~

When Explicit Consent is Refused

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

- (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 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.

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.

When Disclosure to Obtain Consent would Breach Confidentiality

R310.12 *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

NZ R310.12.1 In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall end or decline the relevant assurance engagement.

310.12 A1 *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

Documentation

R310.13 *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

- 320.1 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.

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.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 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.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject 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.

Changes in a Professional Appointment

General

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

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

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 accepts the engagement before knowing all the relevant facts.

320.4 A2 If an assurance practitioner is asked to undertake work that is complementary or additional to the work of an existing or predecessor 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.

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 assurance practitioner will be requested. This contact gives the proposed assurance practitioner the opportunity to enquire whether there are any reasons why the engagement should not be accepted.

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

- Asking the existing or predecessor assurance practitioner to provide any known 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. For example, enquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor assurance practitioner that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through enquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

Communicating with the Existing or Predecessor Assurance Practitioner

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

Communicating with the Proposed Assurance Practitioner

- R320.7** When an existing or predecessor assurance practitioner is asked to respond to a communication from a proposed assurance practitioner, the existing or predecessor assurance practitioner shall:
- (a) Comply with relevant laws and regulations governing the request; and
 - (a) Provide any information honestly and unambiguously.
- 320.7 A1 An existing or predecessor assurance practitioner is bound by confidentiality. Whether the existing or predecessor assurance practitioner is permitted or required to discuss the affairs of a client with a proposed assurance practitioner will depend on the nature of the engagement and:
- (a) Whether the existing or predecessor 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 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.

Changes in Audit or Review Appointments

- 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 laws and regulations set out in paragraphs R360.21 and R360.22:
- (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
 - (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.

Client and Engagement Continuance

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

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 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.

Using the Work of an Expert

R320.10 When an assurance practitioner intends to use the work of an expert, the assurance practitioner shall determine whether the use is warranted.

320.10 A1 Factors to consider when an assurance practitioner 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.

SECTION 321

SECOND OPINIONS

Introduction

321.1 *[Deleted.by the NZAuASB]*

321.2 *[Deleted.by the NZAuASB]*

Requirements and Application Material

General

321.3 A1 *[Deleted.by the NZAuASB]*

321.3 A2 *[Deleted.by the NZAuASB]*

321.3 A3 *[Deleted.by the NZAuASB]*

When Permission to Communicate is Not Provided

R321.4 *[Deleted.by the NZAuASB]*

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

- 330.1 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.
- 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.

Application Material

Level of Fees

- 330.3 A1 The level of fees quoted might impact an assurance practitioner's ability to perform professional services in accordance with professional standards.
- 330.3 A2 An assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than another 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 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.

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.
- Disclosure to intended users of the work performed by the 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.

330.4 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 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)*.

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.

330.5 A1 *[Deleted by the NZAuASB. Refer to NZ R330.5 and NZ 330.5 A1.1]*

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.

330.5 A2 *[Deleted by the NZAuASB. Refer to NZ R330.5 and NZ 330.5 A1.1]*

Purchase or Sale of a Firm

330.6 A1 An assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

SECTION 340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

- 340.1 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.
- 340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.
- 340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services that does not constitute non-compliance with laws and regulations. This section also requires an assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

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

Inducements Prohibited by Laws and Regulations

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

Inducements Not Prohibited by Laws and Regulations

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

Inducements with Intent to Improperly Influence Behaviour

R340.7 An assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the assurance practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

R340.8 An assurance practitioner shall not accept, or encourage others to accept, any inducement that the assurance practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

340.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for an assurance practitioner in considering what constitutes unethical behaviour on the part of the assurance practitioner and, if necessary by analogy, other individuals.

340.9 A2 A breach of the fundamental principle of integrity arises when an assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client offering or being offered the inducement.

- Whether the assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of Further Actions

340.10 A1 If the assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.

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

- Informing senior management of the firm or those charged with governance of the client regarding the offer.
- Amending or terminating the business relationship with the client.

Inducements with No Intent to Improperly Influence Behaviour

340.11 A1 The requirements and application material set out in the conceptual framework apply when an assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the assurance practitioner has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
 - An assurance practitioner is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
 - An assurance practitioner regularly takes an existing or prospective client to sporting events.
- Intimidation threats
 - An assurance practitioner accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 340.9 A3 for determining intent.

340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the client to another individual who the assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the assurance practitioner with respect to the client from which the assurance practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R340.12 An assurance practitioner shall remain alert to potential threats to the assurance practitioner's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the assurance practitioner to an existing or prospective client of the assurance practitioner.
- (b) To an immediate or close family member of the assurance practitioner by an existing or prospective client of the assurance practitioner.

R340.13 Where the assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the assurance practitioner or of an existing or prospective client of the assurance practitioner, or considers a reasonable and informed third party would be likely to conclude such intent exists, the assurance practitioner shall advise the immediate or close family member not to offer or accept the inducement.

340.13 A1 The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The assurance practitioner and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The assurance practitioner and the existing or prospective client.

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

340.13 A2 The application material in paragraph 340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner, or of the existing or prospective client even if the immediate or close family member has followed the advice given pursuant to paragraph R340.13.

Application of the Conceptual Framework

340.14 A1 Where the assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the assurance practitioner pursuant to paragraph R340.13; or
- (b) The assurance practitioner does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the existing or prospective client exists.

340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

Other Considerations

340.15 A1 If an assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.

340.15 A2 If a firm, network firm or an audit or review team member is being offered gifts or hospitality from an audit or review client, the requirement and application material set out in Section 420 apply.

340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

SECTION 350

CUSTODY OF CLIENT ASSETS

Introduction

- 350.1 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.
- 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.

Requirements and Application Material

Before Taking Custody

- R350.3** An assurance practitioner 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 shall:
- (a) Make enquiries about the source of the assets; and
 - (b) Consider related legal and regulatory obligations.
- 350.4 A1 Enquiries 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.

After Taking Custody

- R350.5** An assurance practitioner 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.

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 360.1 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 becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 360.3 An assurance practitioner 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 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 recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial; and
 - (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 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 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 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:

- (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.

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.

R360.6 In some cases, there are legal or regulatory provisions governing how 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 assurance practitioner 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.

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

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 A2 An assurance practitioner 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.

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

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.

Responsibilities of All Assurance Practitioners

R360.9 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. In taking timely steps, the 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.

Audits and Reviews of Financial Statements

Obtaining an Understanding of the Matter

R360.10 [Amended by the NZAuASB]

NZ R360.10.1 If an assurance practitioner engaged to perform an audit or review of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the 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.

360.10 A1 The 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.

- 360.10 A2 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the 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-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 assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.
- R360.11** 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 and, where appropriate, those charged with governance.
- 360.11 A1 The purpose of the discussion is to clarify the 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.
- 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:
- 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.
- 360.11 A4 The assurance practitioner might also consider discussing the matter with internal auditors, where applicable.
- R360.12** 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.

Addressing the Matter

- R360.13** 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:
- (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.

R360.14 The 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.

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

R360.15 *[Amended by the NZAuASB]*

NZ R360.15.1 The assurance practitioner shall comply with applicable:

- (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 review engagement 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 report or review 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.

Communication with Respect to Groups

R360.16 *[Amended by the NZAuASB]*

NZ R360.16.1 Where an assurance practitioner 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 assurance practitioner shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The assurance practitioner is, for purposes of an audit or review of the group financial statements, requested by the group engagement team to perform work on financial information related to the component; or
- (b) The assurance practitioner is engaged to perform an audit or review 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 *[Amended by the NZAuASB]*

NZ 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 or review,

whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph NZ R360.16.1 applies regardless of whether the group engagement partner's firm or network is the same as or different from the assurance practitioner's firm or network.

R360.17 *[Amended by the NZAuASB]*

NZ R360.17.1 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit or review 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 or review 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 R360.18.1 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 enquiries 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 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.

R360.20 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.

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

- The legal and regulatory framework.
- The urgency of the situation.
- 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.

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

- 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.

R360.21 The assurance practitioner shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the assurance practitioner shall 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.

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

- 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 assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the assurance practitioner. In such circumstances, withdrawal might be the only available course of action.

R360.22 Where the assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the assurance practitioner shall, on request by the proposed assurance practitioner pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed assurance practitioner. The predecessor 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 assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, unless prohibited by law or regulation.

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

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

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

360.24 A1 As assessment of the matter might involve complex analysis and judgements, the assurance practitioner might 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.
- 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.

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 assurance

practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- 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:

- 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 assurance practitioner or other individuals.

R360.26 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, that disclosure is permitted pursuant to paragraph R114.1(d) of the 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.

Imminent Breach

R360.27 In exceptional circumstances, the assurance practitioner might become aware of actual or intended conduct that the assurance practitioner 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 shall exercise professional judgement 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.

Documentation

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

- 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 test.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 *[Amended by the NZAuASB]*

NZ 360.28 A1.1 This documentation is in addition to complying with the documentation requirements under applicable auditing or review engagement standards. International Standards on Auditing (New Zealand) (ISAs (NZ)), for example, require an assurance practitioner performing an audit of financial statements to:

- 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 applicable, those charged with governance and other parties outside the entity.

Assurance 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 *[Amended by the NZAuASB]*

NZ R360.29.1 If an assurance practitioner engaged to provide an assurance 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.

360.29 A1 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. 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.

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.

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.

360.30 A1 The purpose of the discussion is to clarify the 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.

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

- 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 Assurance Practitioner

R360.31 [Amended by the NZAuASB]

NZ R360.31.1 If the assurance practitioner is performing an assurance service other than an audit or review for:

- (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 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 [Amended by the NZAuASB]

NZ R360.32.1 If the assurance practitioner is performing an assurance service other than an audit or review for:

- (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 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 *[Amended by the NZAuASB]*

NZ R360.33.1 If the assurance practitioner is performing an assurance service other than an audit or review for a client that is not:

- (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 shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external 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:

- 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.

Considering Whether Further Action Is Needed

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

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

- 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 might include:

- 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:

- 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 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 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.

Imminent Breach

R360.38 In exceptional circumstances, the assurance practitioner might become aware of actual or intended conduct that the assurance practitioner 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 shall exercise professional judgement 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.

Seeking Advice

360.39 A1 The assurance practitioner 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.

Documentation

360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner 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.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.
- How the assurance practitioner is satisfied that the assurance practitioner 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 assurance practitioners be independent when performing audit or review engagements.

400.2 *[Amended by the NZAuASB]*

NZ 400.2 This Part applies to both audit and review engagements.

NZ 400.2.1 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.

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

400.4 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 organisation. 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 Professional and Ethical Standard 3 (Amended). In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.

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

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

judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

- (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 scepticism 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.

400.7 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 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:

- 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.

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*.

Requirements and Application Material

General

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

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.

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.

[Paragraphs 400.13 to 400.19 are intentionally left blank]

Related Entities

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

[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:

- (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.

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:

- (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.

400.31 A2 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.
- 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.

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:

- (a) Consider the firm's judgements in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) 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 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.

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.

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.

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

- (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).

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.

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)).

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

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

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

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

400.53 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)).

400.53 A8 Professional resources include:

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

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

- The shared resources might be limited to common audit or review methodology or audit or review manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or 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.

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.

[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:

- (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 judgements 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.

[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.

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

- (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:

- (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.

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:

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

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the assurance practitioner, 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 review or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having an assurance practitioner review the audit, review or non-assurance work as appropriate.
- Having an assurance practitioner, 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 assurance practitioner 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 assurance practitioner.

Documentation

R400.76 The firm shall document:

- (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 or review report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the audit or review engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making 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 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.

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:

- 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:

- 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.

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:

- (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 judgement, 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.

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

- (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.

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.

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 or review reports, and the possibility of withdrawing such audit or review reports; and
- (b) Discuss the matter with those charged with governance.

Documentation

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

- (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.

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

- (a) The conclusion that, in the firm's professional judgement, 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.

SECTION 410

FEES

Introduction

- 410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 410.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Fees – Relative Size

All Audit and Review 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 end or decline the engagement.
- 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.
- 410.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
 - Whether the firm is well established or new.
 - The significance of the client qualitatively and/or quantitatively to the firm.
- 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.
- 410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit or review client represent a large proportion of the revenue of one partner or one office of the firm.
- 410.3 A5 Factors that are relevant in evaluating the level of such threats include:
- 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:

- 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 or Review 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:

- (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, an assurance practitioner, 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, an assurance practitioner, 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.

R410.6 If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:

- (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.

410.7 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 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:

- (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.

R410.10 A firm shall not charge directly or indirectly a contingent fee for an audit or review engagement.

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:

- (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.

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.

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.

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.

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.

SECTION 420

GIFTS AND HOSPITALITY

Introduction

- 420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 420.2 Accepting gifts and hospitality from an audit or review client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R420.3** A firm, network firm or an audit or review team member shall not accept gifts and hospitality from an audit or review client, unless the value is trivial and inconsequential.
- 420.3 A1 Where a firm, network firm or audit or review team member is offering or accepting an inducement to or from an audit or review client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 420.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm, network firm or audit or review team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

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.

Application Material

General

- 430.3 A1 The relationship between client management and audit or review team members must be characterised by complete candour 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.

SECTION 510

FINANCIAL INTERESTS

Introduction

- 510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 510.2 Holding a financial interest in an audit or review client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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.
- 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.
- 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:
- 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-assurance services to the audit or review client, except for any whose involvement is minimal, or any of that individual’s immediate family.

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 engagement partner is located in a different office from that of the other audit or review team members, professional judgement 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:

- (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.

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:

- (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:

- (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:
- (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:

- (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.

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

- 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.

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.

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.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- 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:

- 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.

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:

- 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:

- The firm's organisational, 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.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- 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.

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.

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.

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.

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.

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.

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:

- (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.

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.

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.

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-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.

520.6 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 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.

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.

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.

- R521.5** An individual shall not participate as an audit or review team member when any of that individual's immediate family:
- (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:
- (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:
- 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.
- 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.

Other Close Relationships of an Audit or Review 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:
- (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:

- 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.

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.

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:

- (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:

- 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:

- 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.

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.

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.

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.
- 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.

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.

Requirements and Application Material

Service as Director or Officer

R523.3 *–[Amended by the NZAuASB. Refer to NZ R523.3.1]*

NZ R523.3.1 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.

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*.)

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.

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.

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.

- 524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.
- 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.
- 524.4 A3 Factors that are relevant in evaluating the level of such threats include:
- 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:
- 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.
- 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.
- 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.
- 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 judgements made by that individual while on the team.

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:

- (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:

- (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:

- (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.

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:
- 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.
- R525.4** A firm or network firm shall not loan personnel to an audit or review client unless:
- (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 or review 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:
- (a) The audit or review client and its operations;
 - (b) The audit or review client's senior management; or
 - (c) 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.
- 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 or review 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 organisation 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.

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 or review engagement over a long period of time would be rotating the individual off the audit or review team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit or review team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit or review 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 or review team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit or review engagement;
- (b) Provide quality control for the auditor review engagement; or
- (c) Exert direct influence on the outcome of the audit or review engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

Audit or Review Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit or review of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years¹ (the “time-on” period):

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

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 or key assurance 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 R540.14.

R540.7 As an exception to paragraph R540.5, key audit or key assurance partners whose continuity is especially important to audit or engagement 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 or key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

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.

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

¹ Law or regulation may specify a shorter time-on period, for example, the NZX Listing Rules.

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.

- 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.

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.

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.

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.
- 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.
- 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.

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.
- 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.

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:

- (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.

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.

Shorter Cooling-off Period Established by Law or Regulation

R540.19 Where a legislative or regulatory body (or organisation authorised or recognised 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.

Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

- (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.

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 analysing 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.

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.

- 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 judgement.
- 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.

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 judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

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.

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.

- 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.
- 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.

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.
- 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.
- 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.
- 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:
- 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.
 - Authorising 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. 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:

- (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:

- (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:

- (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.

- 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:

- 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 analysing 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:

- 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 judgement. Some examples of these services are:

- 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:

- (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:

- 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.

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:

- (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.

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.

Application Material

All Audit or Review Clients

602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgement 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.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 Providing valuation services to an audit or review client might create a self-review or advocacy threat.

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.

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.

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.

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:

- 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 judgement.

- 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.

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.

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.

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.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 Providing tax services to an audit or review client might create a self-review or advocacy threat.

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.

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.
- 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.

Tax Return Preparation

All Audit or Review Clients

604.4 A1 Providing tax return preparation services does not usually create a threat.

604.4 A2 Tax return preparation services involve:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardised 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.

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.
- 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 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.

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.
- 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.

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.
- 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.
- 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:
- 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.

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:

- (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.

- 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.
- 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:
- 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.
- 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.

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.
- 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.
- 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:
- 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:

- 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:

- (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:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analysing 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.

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 Providing internal audit services to an audit or review client might create a self-review threat.

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.

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:

- 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.
 - Enquiring 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.
- 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.

R605.4 When providing an internal audit service to an audit or review client, the firm shall be satisfied that:

- (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.
- 605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:
- 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:
- (a) Appropriately evaluating those results; or
 - (b) Exercising the same level of professional scepticism 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:
- 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.

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:

- (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.
- 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.

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.

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 customisation 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.

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.

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:

- 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.

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:

- (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.

- 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.

Application Material

All Audit or Review Clients

- 607.3 A1 Litigation support services might include activities such as:
- 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:
- 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 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.

SUBSECTION 608 – LEGAL SERVICES

Introduction

- 608.1 Providing legal services to an audit or review client might create a self-review or advocacy threat.
- 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.

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:
- (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:
- 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:
- 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.

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.

608.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

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.

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:

- 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.

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.

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.

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.

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.

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.

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.

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.

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:

- (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.

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.

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:

- 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.

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.

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.

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:

- (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.
- 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.”

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:
- (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.
- 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.
- 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.

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 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.

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.

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.

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.

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:

- (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.

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, 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.

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.

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.

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.
- 900.2 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.
- 900.3 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 maintain independence where required by relevant ethics standards. International Standards on Assurance Engagements (New Zealand) and Standards on Assurance Engagements 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 organisation. 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 Professional and Ethical Standard 3 (Amended). In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.
- 900.4 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
 - (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 scepticism 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.

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 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.

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, *Framework for Assurance Engagements*, describes the elements and objectives of an assurance engagement and identifies engagements to which the other assurance engagement standards apply. For a description of the elements and objectives of an assurance engagement, refer to the 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 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 COSO² or CoCo³ (criteria), to internal control, a process (subject matter).

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.

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.

900.11 In a direct reporting assurance engagement, the firm:

² Committee of Sponsoring Organisations of the Treadway Commission

³ Chartered Professional Accountants of Canada Criteria of Control

- (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.

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.

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.

NZ 900.13.1 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.

Requirements and Application Material

General

R900.14 A firm performing an assurance engagement shall be independent.

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.

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.

900.16 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

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.

Types of Assurance Engagements

Assertion-based Assurance Engagements

R900.18 When performing an assertion-based assurance engagement:

- (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.

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:

- (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.

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).

Direct Reporting Assurance Engagements

R900.20 When performing a direct reporting assurance engagement:

- (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.

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:

- (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.

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.

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:

- (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.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- 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:

- (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:

- (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 judgements 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.

[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:

- (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 judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an 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 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.
- 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.

Documentation

- 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.
- R900.55** If the firm continues with the assurance engagement, it shall document:
 - (a) The conclusion that, in the firm's professional judgement, 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.
- 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.

Requirements and Application Material

Fees—Relative Size

- NZ R905.3.1** 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 end or decline the engagement.
- 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.
- 905.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
 - Whether the firm is well established or new.
 - The significance of the client qualitatively and/or quantitatively to the firm.
- 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.
- 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.
- 905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- 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.

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.

R905.5 When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (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.

R905.7 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

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 judgement related to a matter that is material to the subject matter information of the assurance engagement.

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.

905.9 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 subject matter information.

905.9 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 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

Introduction

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

Requirement and Application Material

- R906.3** A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.
- 906.3 A1 Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 906.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

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.

Application Material

General

- 907.3 A1 The relationship between client management and assurance team members must be characterised 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.

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.

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.

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.

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.

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:

- (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:

- (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.

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

- 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:

- 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.

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:

- 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.

910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

- 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.

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.

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.

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.

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.

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.

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.

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.

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.

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. 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.

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.

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

- (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:
- (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:
- 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.
- 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.

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:
- (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:
- 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.
- 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.

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.

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.

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.

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.

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:
- 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.

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.

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.

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:
- (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-assurance Services to an Assurance Client*.)

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.

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.

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:

- (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.
- 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.
- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:
- 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.

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.

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.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

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 judgements made by that assurance team member while on the team.

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.

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:
- 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.

- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

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.

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.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- 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.

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:

- (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.
- 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.

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.
- 950.3 A1 The requirements and application material in this section assist firms in analysing 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.
- 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.

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:
- 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 judgement.

- 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.

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.

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.

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.
- 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.
- 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.
- 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:

- 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.
- Authorising 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).

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 judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(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:

- (a) Developing and preparing prospective information and subsequently providing assurance on this information.

- (b) Performing a valuation that forms part of the subject matter information of an assurance engagement.

Draft

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.
- 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.”

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:
- (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, subject matter information and limitations of the report and explicitly agree to the application of the modifications.
- 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.
- 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.
- 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.

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.

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.

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

- (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.

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.

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.

GLOSSARY

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 assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by assurance practitioners with a view to procuring assurance business.
Appropriate reviewer	<i>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.</i> <i>This term is described in paragraph 300.8 A4.</i>
[NZ] Assurance client	An entity in respect of which a firm conducts an assurance engagement.
Assurance engagement	An engagement in which an assurance practitioner 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 <i>Overview of Auditing and Assurance Standards</i> . EG Au1 describes the elements and objectives of an assurance engagement and identifies engagements to which <i>International Standards on Auditing (New Zealand)</i> (ISAs (NZ)), <i>International Standards on Review Engagements (New Zealand)</i> (ISREs (NZ)), <i>New Zealand Standard on Review Engagements (NZ SRE)</i> , <i>International Standards on Assurance Engagements (New Zealand)</i> (ISAEs (NZ)), and <i>Standards on Assurance Engagements (SAEs)</i> apply.)
[NZ] Assurance practitioner	A person or organisation, 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;
 - (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.

Commented [SW3]: Definition same as IESBA, therefore NZ prefix not required.

[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. *(See also paragraph R400.20.)*

Audit engagement

A reasonable assurance engagement in which an assurance practitioner 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.

- Audit team
- (a) All members of the engagement team for the audit engagement;
 - (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
 - (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);

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

(c) All those within a network firm who can directly influence the outcome of the audit engagement.

Close family A parent, child or sibling who is not an immediate family member.

Conceptual framework *This term is described in Section 120.*

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 *This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.*

Direct financial interest A financial interest:

(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or

(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.

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 *This term is described in paragraph 800.2 for the purposes of Section 800.*

Eligible assurance engagement *This term is described in paragraph 990.2 for the purposes of Section 990.*

Engagement partner⁴ 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

⁴ Engagement partner: should be read as referring to their public sector equivalents where relevant.

	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 or review team begins to perform the audit or review. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.
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 judgements 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 accountant currently holding an audit appointment or carrying out accounting, tax, consulting or similar non-assurance services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the assurance practitioner in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other

explanatory information. The term can relate to a 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 undertaking assurance engagement 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.

Commented [SW4]: Amendment missed in ED.

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:*

<i>Integrity</i>	<i>R111.1</i>
<i>Objectivity</i>	<i>R112.1</i>
<i>Professional competence and due care</i>	<i>R113.1</i>
<i>Confidentiality</i>	<i>R114.1</i>
<i>Professional behaviour</i>	<i>R115.1</i>

Historical financial information Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family A spouse (or equivalent) or dependent.

Independence Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (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 scepticism has been compromised.

As set out in paragraphs 400.5 and 900.4, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B, as applicable.

Indirect financial interest A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Inducement An object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.

Inducements can range from minor acts of hospitality between assurance practitioners and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- *Gifts.*
- *Hospitality.*
- *Entertainment.*
- *Political or charitable donations.*
- *Appeals to friendship and loyalty.*
- *Employment or other commercial opportunities.*
- *Preferential treatment, rights or privileges.*

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 judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.

[NZ] Key assurance partner	The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.
Listed entity	<i>[Deleted by the NZAuASB]</i>
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>
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 <i>(Professional Accountants in Public Practice)</i>	<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) A client;</i> <i>(b) Those charged with governance of a client;</i> <i>(c) Management of a client; or</i> <i>(d) Other individuals working for or under the direction of a client.</i> <p><i>This term is described in paragraph 360.5 A1.</i></p>

[NZ] Offer document	A document, such as a product disclosure statement of or a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.
Office	A distinct sub-group, whether organised on geographical or practice lines.
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	<i>[Deleted by the NZAuASB]</i>
Professional accountant in business	<i>[Deleted by the NZAuASB]</i>
Professional accountant in public practice	<i>[Deleted by the NZAuASB]</i>
Professional activity	An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, tax, management consulting, and financial management.
Professional services	Professional activities performed for clients.
[NZ] Proposed assurance practitioner	An assurance practitioner who is considering accepting an audit, review or assurance appointment for a prospective client (or in some cases, an existing client).
[NZ] Public interest entity	Any entity that meets the Tier 1 criteria in accordance with XRB A1 ⁵ and is not eligible to report in accordance with the accounting requirements of another tier.
Reasonable and informed third party	<i>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.</i>
Reasonable and informed third party test	

Commented [SW5]: Correct typo

⁵ XRB A1 Application of the Accounting Standards Framework

These terms are described in paragraph R120.5 A4.

Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none">(a) An entity that has direct or indirect control over the client if the client is material to such entity;(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;(c) An entity over which the client has direct or indirect control;(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and(e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Review client	<p>An entity in respect of which a firm conducts a review engagement.</p>
Review engagement	<p>An assurance engagement, conducted in accordance with <i>International Standards on Review Engagements (New Zealand) 2400</i> or New Zealand Standard on Review Engagements 2410, in which an assurance practitioner expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance practitioner’s attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.</p>
Review team	<ul style="list-style-type: none">(a) All members of the engagement team for the review engagement; and(b) All others within a firm who can directly influence the outcome of the review engagement, including:<ul style="list-style-type: none">(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s 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
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

Safeguards *Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.*
This term is described in paragraph 120.10 A2.

Substantial harm *This term is described in paragraph 360.5 A3.*

Special purpose financial statements Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

Those charged with governance The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats *This term is described in paragraph 120.6 A3 and includes the following categories:*

Self interest 120.6 A3(a)

Self-review 120.6 A3(b)

Advocacy 120.6 A3(c)

Familiarity 120.6 A3(d)

Intimidation 120.6 A3(e)

Time-on period *This term is described in paragraph R540.5.*

EFFECTIVE DATE

Subject to the transitional provision below

Parts 1 and 3 of the restructured Code will be effective on 15 June 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 15 June 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 15 June 2019; otherwise, it will be effective on 15 June 2019.

Paragraph R540.19 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

Early adoption is permitted.

WITHDRAWAL OF PES 1 (REVISED)

This Standard supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*.

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL AND AUSTRALIAN CODE OF ETHICS

This conformity statement accompanies but is not part of ~~proposed~~ Professional and Ethical Standard 1.

~~Proposed~~ PES 1 incorporates Parts 1, 3, 4A and 4B of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (~~IESBA-International~~ Code) issued by the International Ethics Standards Board of Accountants (IESBA).

The principles and requirements of ~~proposed~~ PES 1 are consistent with the ~~IESBA-International~~ Code except for the following:

- The addition of a scope and application section. ~~Proposed~~ PES 1 has a narrower scope and is meant to apply to all assurance practitioners appointed or engaged to perform an assurance engagement. The ~~IESBA-International~~ Code applies to all professional accountants.
- ~~Proposed~~ PES 1 refers to assurance practitioners whereas the ~~IESBA-International~~ Code refers to professional accountants. Section 321 *Second Opinions* has been deleted by the NZAuASB as it does not relate to assurance engagements. Part 2 of the ~~IESBA-International~~ Code, ~~that which~~ applies to professional accountants in business has not been included in ~~proposed~~ PES 1;
- The addition of paragraphs and definitions prefixed as NZ in ~~proposed~~ PES 1. The additional definitions are of assurance services, assurance practitioner, FMC reporting entity considered to have a higher level of public accountability, key assurance partner, and offer document;
- ~~Proposed~~ PES 1 tailors the following IESBA defined terms in the New Zealand environment: assurance client, audit client and public interest entity;
- NZ 310.9.1 requires the assurance practitioner to disclose, in writing, the nature of the conflict of interest and the related safeguards applied to eliminate the threat or reduce it to an acceptable level to all clients or potential clients affected by the conflict. NZ R310.9.2 requires the assurance practitioner to obtain the clients consent, in writing, to perform the assurance services when safeguards are applied. The ~~IESBA-International~~ Code states that disclosure is generally necessary.
- NZ R310.12.1 requires an assurance practitioner to disengage from the relevant assurance engagement if adequate disclosure to the client of a conflict of interest is restricted as a result of confidentiality requirements. The ~~IESBA-International~~ Code allows the engagement to proceed in limited circumstances.
- The requirements of section 360 of the ~~IESBA-International~~ Code (paragraphs R360.10 – NZ 360.28 A1.1) that apply only to audits of financial statements have been broadened to apply to audit and review engagements.

Commented [SW6]: To be confirmed by Board that addition of "in writing" is appropriate in paragraphs NZ R310.9.1-2

Independence requirements

- Part 4A describes the independence requirements for audits and reviews of historical financial information. –NZ400.2.1 extends the scope of Part 4A to cover all assurance

engagements 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.

- For the purposes of the ~~IESBA-International~~ Code and the Australian Code of Ethics for Professional Accountants, public interest entities (PIE) include: a listed entity, an entity defined by regulation or legislation as a public interest entity or an entity 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.

The Australian Code of Ethics for Professional Accountants also requires firms to determine whether to treat additional entities as public interest entities and lists entities in Australia which will generally be considered to be public interest entities.

For the purposes of ~~proposed PES 1 (Revised)~~, public interest entities include any entity that meets the Tier 1 criteria in accordance with XRB A1⁶ and is not eligible to report in accordance with the accounting requirements of another tier.

- NZ R400.12.1 and NZ 900.15.1 requires that when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate. This is consistent with the Australian Code.
- NZ R 410.3 and NZ R 905.3.1 emphasise that an assurance practitioner shall end or decline an engagement where the total fees from the client represent a large proportion of the total fees of the firm and safeguards have not eliminated or reduced the threats to an acceptable level.
- NZ R 523.3 specifically prohibits a firm from providing audit services to an entity if the partner or employee of the firm serves as an officer or director, liquidator or receiver in respect of the property of the client or in a similar role.
-

⁶ XRB A1 *Application of the Accounting Standards Framework*.

Memorandum

Date: 6 December 2018

To: Graeme Mitchell, Chairman XRB Board

From: Robert Buchanan, Chairman NZAuASB

Subject: Certificate Signing Memo: Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

Background

International process

2. The International Ethics Standards Board for Accountants (IESBA) has, in the past, received feedback on the clarity and usability of the extant Code. For example, small and medium practices have indicated that the biggest barrier faced in fully adhering to the Code is in understanding its requirements. Concerns have also been raised about difficulties in translating or understanding the complex and long sentences of the extant Code. In addition, some regulators and audit oversight bodies have questioned the enforceability of some of its provisions¹.
3. The IESBA's research findings indicated a broad-based appetite for change, with widespread support for increasing the visibility of the requirements and clarifying the language used in the Code. The IESBA approved a project in 2014 to enhance the clarity and usability of the extant Code. The IESBA intends that the restructuring of the Code will facilitate its adoption, more effective implementation and consistent application, and better enforcement. Whilst restructuring the Code, the IESBA was careful not to inadvertently change the meaning of the Code or to weaken it.

¹ https://www.ifac.org/system/files/publications/files/Structure-Basis-for-Conclusions_0.pdf

4. At its December 2017 meeting, the IESBA approved the final text of the restructured Code. The restructured Code, issued in April 2018, includes:
- Structural and drafting enhancements developed under the Structure of the Code project;
 - Revisions to the provisions pertaining to safeguards in the Code, including enhancements to the conceptual framework, developed under the Safeguards project;
 - Revisions to clarify the applicability of the provisions in Part C² of the extant Code to professional accountants in public practice, developed under the Applicability project; and
 - New application material relating to professional scepticism and professional judgement, developed under the professional scepticism short term project.
5. The restructured Code includes restructured texts of significant recent revisions to the extant Code addressing non-compliance with laws and regulations, long association, and issued relating to professional accountants in business.
6. In addition, the revisions to the provisions relating to inducements, a separate project, were finalised in June 2018.

Structure of the Code

7. Key elements of the restructuring include:
- Increasing the prominence of the requirement to comply with the fundamental principles, be independent, where applicable, and apply the conceptual framework;
 - Emphasising that compliance with the fundamental principles and, where applicable, being independent, are the overarching requirements of the Code;
 - Distinguishing requirements (paragraphs identified with an “R”) from application material (paragraphs identified with an “A”);
 - Increasing clarity of responsibility, in particular in relation to independence; and
 - Increasing clarity of language to improve readability and understandability including: simpler and shorter sentences; simplifying complex grammatical structures and avoiding legalistic and archaic terms.

² Extant Part C – *Professional Accountants in Business*

8. Additional aspects of the restructuring are as follows:

- Improving the navigability of the Code, including adding a *Guide to the Code*.
- Organising the material into more self-contained sections and subsections so that:
 - Each section has its own introduction to provide an overview and context, including threats that might exist, and reminders of the requirement to comply with the fundamental principles, be independent, where applicable, and apply the conceptual framework; and
 - Revised numbering for clarity and to facilitate future revisions.
- Reorganising the Code to take advantage of forthcoming electronic features.
- Re-ordering of extant Parts B and C to recognise the relevance of the material applicable to professional accountants in business to professional accountants in public practice in certain circumstances.
- Enhancing the glossary.
- Changing the Code's title to emphasise its international application and the enforceability of the provisions pertaining to independence (the *International Independence Standards*).³

Safeguards Project

9. The safeguards project was approved in January 2015, with the aim of improving the clarity, appropriateness and effectiveness of the safeguards in the Code. The IESBA sought to:

- Clarify the safeguards in the extant Code that were perceived as unclear and, where warranted, eliminate those that are inappropriate or ineffective;
- Better correlate each safeguard with the threat it is intended to address; and
- Clarify that not every threat can be addressed by a safeguard.

10. The enhancements made to the conceptual framework include more explicit requirements relating to the threats and safeguards approach, as well as enhanced application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles and threats to independence.

³ The independence sections in the restructured Code are included in the *International Independence Standards*, which comprise Part 4A – *Independence for Audit and Review Engagements* and Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

11. The revisions will require a change in mindset in how professional accountants and firms apply the conceptual framework. In particular, they will require more careful thinking as to how an identified threat should best be addressed, and in particular whether an action will be effective in addressing the threat and therefore meet the revised description of a safeguard.
12. To help emphasise the need for a careful thought process when applying the enhanced conceptual framework, the overarching requirements clarify that in all three stages of the conceptual framework, i.e., identifying, evaluating and addressing threats, professional accountants are required to:
- Exercise professional judgement, based on an understanding of known facts and circumstances;
 - Use the reasonable and informed third party test; and
 - Remain alert for new information and to changes in facts and circumstances.
13. The enhanced conceptual framework makes it explicit that applying safeguards is only one of three ways to address threats. Specifically, threats can be addressed by:
- Eliminating the circumstances, including interests or relationships that are creating the threat;
 - Applying safeguards, when available and capable of being applied; or
 - Declining or ending the specific professional activity.
14. The enhanced conceptual framework requires professional accountants to think about the specific facts and circumstances, including the nature of the professional activity, interests and relationships, creating the threats to determine whether an “action(s) taken to address them are, individually or in combination, effective in reducing such threats to an acceptable level.”

Professional scepticism and professional judgement

15. Concurrent with the safeguards project, the IESBA approved new application material relating to professional judgement to clarify the importance of professional accountants obtaining a sufficient understanding of the facts and circumstances, known to them, when exercising professional judgement in applying the conceptual framework.

16. New application material also describes how compliance with the fundamental principles in the Code supports the exercise of professional scepticism in the context of audit and other assurance engagements.

Applicability of the Code

17. During the IESBA's deliberations in its review of Part C of the extant Code pertaining to the topics of pressure to breach the fundamental principles and the preparation and presentation of information, questions were raised about whether the provisions applying to professional accountants in business should apply also to professional accountants in public practice. The extant Code contains statements that could be interpreted as if the Code contains two distinct parts (i.e., Part B for professional accountants in public practice and Part C for professional accountants in business) directed at two different categories of professional accountants. However, the extant Code also notes that in certain circumstances the provisions for professional accountants in business may be relevant to professional accountants in public practice. Accordingly, the IESBA determined to clarify the applicability of the provisions in extant Part C to professional accountants in public practice.

18. Applicability paragraphs have been positioned in section 120⁴ and repeated again in section 300⁵.

Offering and Accepting of Inducements

19. The scope of the inducements project included consideration of revisions to:
- Enhance the description of an inducement in the extant Code.
 - Respond to continuing concerns about the prevalence of bribery and corruption and facilitation payments, and determine how the Code should address them.
 - Provide additional guidance in the Code that takes into account the role of culture in determining whether the offering or accepting of an inducement creates threats to compliance with the fundamental principles.
 - Consider the need for symmetry between the provisions for professional accountants in business and professional accountants in public practice.
20. The IESBA formed the view that the term "inducement" should be broad and neutral as an inducement can influence either good or bad behaviour. It is important to avoid presuming that all inducements have a negative connotation. A professional accountant

⁴ Section 120, *The Conceptual Framework*

⁵ Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

must apply professional judgement when determining whether an object, situation or action, such as a gift, hospitality or a commercial opportunity, falls within the Code's definition of an inducement under a particular set of circumstances.

21. Professional accountants are required to comply with the fundamental principles in relation to the offering or accepting of an inducement. The intent of the offeror is a key principle in assessing the potential impact an inducement might have, or, as importantly, might be perceived to have, on the behaviour of another individual. Offering or accepting of an inducement where a professional accountant concludes there is intent to improperly influence behaviour would, in all cases, breach the fundamental principle of integrity, and is therefore prohibited.
22. The intent test takes into account cultural and social norms and practices, and the reasonable informed third party test is expected to assist in assessing intent. If there is no intent to improperly influence behaviour, the professional accountant should apply the conceptual framework to identify, evaluate and address threats created by an inducement.
23. The Public Interest Oversight Board confirmed that due process has been followed in relation to the amendments described above.

Domestic process

24. The NZAuASB sought feedback from constituents on the IESBA proposals concurrently with the IESBA exposure. Feedback was received from constituents throughout the various consultation periods and incorporated into the NZAuASB's submissions to the IESBA on each of the projects.
25. In July 2018, the NZAuASB approved for exposure, ED NZAuASB 2018-1, Professional and Ethical Standard (PES) 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* with a 90 day comment period. The proposed PES 1, based on the International Code, includes certain additions for the New Zealand environment, as well as the usual New Zealand terminology and spelling changes. Where applicable, NZ paragraphs have also been proposed to harmonise with APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional & Ethical Standards Board in Australia.

26. In preparing the proposed PES 1, the NZAuASB took the opportunity to reconsider whether the compelling reason test continues to be met in respect of previous modifications made to the International Code. This was driven, in part, by responses to the NZAuASB's Invitation to Comment on ED NZAuASB 2017-1⁶ highlighting concerns about the proposed changes to align the long associations provisions for other assurance engagements with the provisions for audit and review engagements. While conceptually, respondents agreed that the independence requirements should be the same for all assurance engagements, many questioned whether the compelling reason test is met, given the impact of the long association changes.
27. In applying the compelling reason test to the NZ modifications in extant PES 1 (Revised), the NZAuASB took into account the impact of the significant revisions to the International Code, as described in the preceding paragraphs, as well as the interaction between the various standards, the engagement standards, quality control standards and the Code of Ethics.
28. Based on the reasons described in the Invitation to Comment, the NZAuASB determined that the compelling reason test is no longer met with respect to certain extant NZ modifications. Accordingly, those paragraphs were not included in the proposed PES 1. Previously, the NZAuASB had made changes to the International Code on the basis that threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter.
29. Submissions on the proposed PES 1 were received from two respondents: CA ANZ and PwC. The respondents were generally supportive of the proposed PES 1 noting no concerns with the proposal not to include the previous NZ paragraphs but rather to follow the principles of the International Code.

Australian process

30. The Accounting Professional & Ethical Standards Board (APESB) issued its restructured Code of Ethics in November 2018.
31. Compelling reason amendments have been made by the APESB. Where appropriate for the New Zealand environment, the same amendments have been included by the NZAuASB in the proposed PES 1.

⁶ ED NZAuASB 2017-1, Proposed Amendments to PES 1 (Revised), *Provisions Addressing the Long Association of Personnel with an Assurance Client*.

Due process

32. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

33. The adoption of the International Code Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international ethical standards, as applying in New Zealand unless there are compelling reasons not to.
34. To the extent practicable, the NZAuASB has harmonised with APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the APESB in Australia.

Other matters

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

Recommendation

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

Attachments

Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

Explanation of Decisions made by the NZAuASB in Finalising Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

Robert Buchanan
Chair NZAuASB



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

PROFESSIONAL AND ETHICAL STANDARD 1

INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

Explanation of Decisions made by the NZAuASB in Finalising Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

Issued December 2018

This document relates to, but does not form part of *Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, which was approved by the NZAuASB in December 2018. It summarises the changes made by the NZAuASB to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants of the International Federation of Accountants. It also summarises the major issues raised by respondents to Exposure Draft 2018-1 *Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards)*, and how the NZAuASB has addressed them.

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PROFESSIONAL AND ETHICAL STANDARD 1

INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

Explanation of Decisions made by the NZAuASB in Finalising the Amendments

Issued by the New Zealand Auditing and Assurance Standards Board

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BACKGROUND

1. In April 2018, the International Ethics Standards Board for Accountants (IESBA) released a completely rewritten and revamped Code of Ethics. Renamed “International Code of Ethics for Professional Accountants (including International Independence Standards)” (the “International Code”), it packages all substantive advancements in ethics and independence over the last four years into a single document. It includes the new provisions relating to non-compliance with laws and regulations, which are already effective, and the revised independence provisions relating to long association which come into effect in December 2018.
2. In July 2018, the NZAuASB approved for exposure, [ED NZAuASB 2018-1, Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners \(including International Independence Standards\) \(New Zealand\)](#), with a 90 day comment period. The ED, based on the International Code, included certain additions for the New Zealand environment, as well as the usual New Zealand terminology and spelling changes.
3. In preparing the ED, the NZAuASB took the opportunity to reconsider whether the compelling reason test continues to be met in respect of previous modifications to the extant International Code. This reconsideration was driven, in part, by responses to the NZAuASB’s Invitation to Comment on [ED NZAuASB 2017-1](#)¹ highlighting concerns about the proposed changes to align the long association provisions for other assurance engagements with the provisions for audit and review engagements. While conceptually respondents agreed that the independence requirements should be the same for all assurance engagements, many questioned whether the compelling reason test is met, given the impact of the long association changes.
4. In applying the compelling reason test to the New Zealand modifications in extant Professional and Ethical Standard 1 (Revised)², the NZAuASB took into account the impact of the recent significant revisions to the International Code, as well as the interactions between the various standards: engagement standards; quality control standards; and the code of ethics.
5. As described in the Invitation to Comment, the NZAuASB determined that the compelling reason test is no longer met with respect to certain extant New Zealand modifications. Accordingly, those paragraphs were not included in the ED. Previously, the NZAuASB had made changes to the International Code on the basis that threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter.
6. Submissions were received from two stakeholders. These respondents were generally in support of the ED noting no concerns with the proposal not to include the previous New Zealand paragraphs, but rather to follow the principles of the International Code.

¹ ED NZAuASB 2017-1, Proposed Amendments to PES 1 (Revised) *Provisions Addressing the Long Association of Personnel with an Assurance Client*

² PES 1 (Revised), *Code of Ethics for Assurance Practitioners*

RATIONALE FOR AMENDMENTS MADE TO THE INTERNATIONAL CODE OF ETHICS

7. The NZAuASB has developed this *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* based on the International Code issued by the IESBA. The NZAuASB applied the [Principles of Convergence to International Standards](#) in developing this standard, and has only amended the International Code where there are compelling reasons to do so. Additional requirements are clearly identifiable as NZ paragraphs and are also described in the conformity with international requirements section at the end of the standard. This Explanation of Decisions made explains the compelling reasons identified by the NZAuASB to amend the International Code.

Scope

8. The NZAuASB's mandate is limited to assurance engagements and therefore the scope of PES 1 differs from the International Code. PES 1 is intended to apply to all assurance practitioners appointed or engaged to provide assurance services. To reflect this New Zealand regulative structure, PES 1 does not include Part 2 of the International Code, *Professional Accountants in Business*, or any references thereto. In addition, Section 321, *Second Opinions*, has been deleted by the NZAuASB as it is not related to the performance of an assurance engagement.

Conflicts of Interest

9. PES 1 includes stricter requirements for dealing with conflicts of interest than the International Code. Paragraph NZ R310.9.1 has been added and paragraphs 310.9 A3 and 310.9 A4 have been deleted. PES 1 always requires the disclosure in writing of the nature of a conflict of interest and related safeguards, if any, to all clients or potential clients affected by a conflict. The International Code states that disclosure is generally necessary.
10. In addition, paragraphs R310.12, 310.12 A1 and R310.13 have been deleted and replaced by NZ R310.12.1 which requires that an assurance practitioner disengage from the relevant assurance engagement if adequate disclosure to the client is restricted as a result of confidentiality requirements. The International Code permits the firm to accept or continue the engagement in limited situations.
11. The NZAuASB recognises that the International Code requirements have a broader application than assurance engagements. The NZAuASB believes that disclosures and a transparent process for handling conflicts of interest are always appropriate for assurance engagements.
12. Managing conflicts of interest in a small country like New Zealand is inevitable and has resulted in stricter requirements than in the International Code. New Zealand best practice has emerged to address these conflicts through the Office of the Auditor-General and guidance issued by the Institute of Directors. New Zealand's best practice has been incorporated into PES 1 which the NZAuASB believes to be appropriate in

the New Zealand context for assurance engagements, and which will promote audit quality.

Referral Fees or Commissions

13. PES 1 contains stricter provisions around accepting or paying referral fees or commissions than the International Code. Paragraphs 330.5 A1 to 330.5 A2 are deleted and replaced with NZ R330.5 and NZ 330.5 A1.1. NZ R330.5 prohibits such fee arrangements. NZ 330.5 A1.1 explains that a fee arrangement in connection with an assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level. This New Zealand paragraph harmonises with a similar explicit requirement in Australia.

Multiple Threats to Independence

14. PES 1 explicitly requires, in paragraphs NZ R400.12.1 and NZ R900.15.1, that an assurance practitioner evaluate multiple threats to independence identified in aggregate, which individually may not be significant. The International Code includes a reference to the consideration of multiple threats in paragraph 120.8 A1. However, this guidance is not as specific and is far removed from the assurance practitioner's consideration of the threats to independence in sections 400 and 900. This New Zealand paragraph harmonises with the same explicit requirement in Australia.
15. The NZAuASB is of the view that there is a compelling reason to explicitly state this as it provides clarity to assurance practitioners on how to appropriately consider and evaluate threats to independence.

Liquidator or Receiver

16. PES 1 specifically prohibits a firm from providing assurance services to an entity if the partner or an employee of the firm serves as a director or officer of the assurance client, or as a liquidator or receiver of the property of the entity, or in a similar role. The International Code has a similar prohibition, but only in respect of a partner or employee serving as a director or officer of an assurance client.
17. This change to extend the prohibition of undertaking assurance services where the partner or employee of the firm serves as a liquidator or receiver of the property of the entity or a similar roles is consistent with legislative requirements in New Zealand and therefore a compelling reason to include in PES 1.

Application of Part 4A to Prospective Financial Information

18. Part 4A of the International Code applies only to audit and review engagements to report on a complete set of financial statements or on a single financial statement. The NZAuASB believes 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 warrants the same

independence requirements. Accordingly, the scope of Part 4A is extended to apply also to offer documents.

Definitions

19. To reflect the New Zealand business practice and legislative/regulative environment, a number of definitions have been revised and some new definitions have been included. Additional New Zealand definitions are included for assurance practitioner, assurance services, FMC reporting entity considered to have a higher level of public accountability, key assurance partner, and offer document. The defined terms of assurance client, assurance team, audit client proposed assurance practitioner, and public interest entity have been tailored from the defined terms in the International Code.

Draft

2 November 2018

Warren Allen FCA
Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

By email: submissions@xrb.govt.nz

Dear Warren

Submission on ED NZAuASB 2018-1: PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

We appreciate the opportunity to provide feedback on the above exposure draft ("the ED"). We support international convergence to the extent practicable, but we support modifications where there is a compelling jurisdiction specific reason.

As an overall comment, we recommend bolding the text of each requirement paragraph (those designated with the letter "R") to make the mandatory obligations clearer. We are proposing to do this in our restructured New Zealand Code of Ethics, and we believe the APESB is doing the same in APES 110.

Appendix A contains our responses to the specific questions raised in the ED. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ). If you have any questions about the matters raised in this submission, or wish to discuss them in further detail, please contact Zowie Pateman, Deputy Reporting and Assurance Leader, at Zowie.Pateman@charteredaccountantsanz.com.

Yours sincerely



Simon Grant FCA ACCA
Group Executive, Advocacy and Professional Standing
Chartered Accountants Australia and New Zealand

Appendix A

Responses to specific questions

- 1. Do you agree with the proposal to follow the International Code in relation to breaches of independence relating to other assurance engagements? If not, please explain why not.**

We agree with the proposal to follow the International Code in relation to breaches of independence relating to other assurance engagements. Although see our comment below in relation to paragraph NZ 400.2.1 in terms of the scope of Parts 4A and 4B and what constitutes an 'other assurance engagement'.

- 2. More specifically, do you consider that the International Code's requirements to use professional judgement when communicating breaches of independence for other assurance engagements are appropriate, given the varying nature of other assurance engagements? If not, please explain why not.**

We consider it is appropriate for assurance practitioners to use their professional judgement in determining with whom to communicate a breach of independence when conducting an other assurance engagement.

- 3. Do you agree that the requirements of the International Code to communicate NOCLAR for other assurance engagements, as proposed in the ED, is appropriate? If not, please explain why not.**

We believe the requirements of the International Code are appropriate in this regard on the basis that they are consistent with the principles for reporting breaches of independence relating to other assurance engagements. Similarly we consider it is appropriate for an assurance practitioner to use their professional judgement in determining with whom to communicate NOCLAR for other assurance engagements.

- 4. Do you agree that the International Code's application of the threats and safeguards approach is sufficient to achieve independence for other assurance engagements? If not, please explain why not.**

We are concerned that the requirement to consider both independence of mind and independence in appearance (paragraph 900.4 and equivalent paragraphs elsewhere) is just implicit through paragraph R900.14. In our view it is important that this is explicit as it is linked to the additional requirement to look at threats in the aggregate (NZ R900.15.1 and equivalent paragraphs elsewhere) and the interpretation of the 'spirit' of the Code (paragraph NZ1.4).

- 5. Do you agree that aligning the proposed effective date with the effective date of the International Code? If not, please explain why not.**

We agree that it is desirable for the effective date to be aligned with the effective date of the International Code.

6. Do you consider that any of the new requirements which align with the International Code requirements pose specific challenges or are not appropriate in the New Zealand context? If so, please provide details.

We note the International Independence Standards contain some overly specific exemptions that appear to contradict the conceptual framework, which requires consideration of all the circumstances rather than just a simplistic rule. For example the exemptions from paragraphs R524.6 and R524.7 in paragraph R524.8. We are concerned that it may be overlooked that these are still subject to the fundamental principles and the conceptual framework still needs to be applied.

7. Do you agree with the addition of the New Zealand paragraphs and the differences to the International Code? If not, please provide details on the specific provisions and reasons why you disagree with the addition.

We commend the NZAuASB for taking this opportunity to re-examine whether the extant New Zealand paragraphs continue to meet the compelling reason test. The following table sets out our comments on each of the proposed NZ paragraphs.

Paragraph	Text	Comments
NZ 114.1 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.	<p>We recommend removing the first sentence which is confusing and not entirely accurate.</p> <p>We also recommend amending the wording of the end of the second sentence to; “An assurance practitioner considering disclosing confidential information about a client without their consent <i>may consider first obtaining legal advice</i>”.</p>
NZR 120.4	When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical standards that apply to these circumstances.	<p>If there is a compelling reason to include this paragraph, we believe it would assist application if some examples of ‘other ethical standards’ were provided. For instance; the Code of Ethics promulgated under section 7 of the New Zealand Institute of Chartered Accountants Act 1996, or APES 110 <i>Code of Ethics for Professional Accountants</i> issued by the APESB.</p> <p>Also we note that the reference drafting is inconsistent, it should be NZ R120.4.</p>

NZ R300.5	When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical provisions that apply to these circumstances.	We note this duplicates paragraph NZR 120.4, and we refer to our comments on that paragraph.
NZ R310.9.1	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 related safeguards, if any, to all clients or potential clients affected by the conflict.	If there is a compelling reason to include these paragraphs we suggest that reference be made to " <i>measures or safeguards</i> " to reflect that paragraph 310.8 A2 talks about 'measures' and paragraph 310.8 A3 refers to 'safeguards'.
NZ R310.9.2	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.	
NZ R310.12	In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall end or decline the relevant assurance engagement.	No specific comments

NZ R330.5	An assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with an assurance engagement.	We note these paragraphs differ to those in proposed restructured APES 110 (paragraphs AUST R330.5.2 and AUST 330.5.2 A1 respectively). We support trans-Tasman harmonisation to the extent practicable.
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.	
NZ R360.10.1 NZ R360.15.1 NZ R360.16.1 NZ 360.16 A1 NZ R360.17.1 NZ R360.18.1 NZ 360.28 A1.1	NOCLAR – to expand the requirements for audit engagements to also apply to review engagements.	The New Zealand legislative environment only allows for “medium” ¹ registered charities to have their financial statements reviewed rather than audited. We are not aware of any other such legislation. On this basis we are unconvinced that this alone is compelling enough to justify modification to the International Code.
NZ R360.29.1 NZ R360.31.1 NZ R360.32.1 NZ R360.33.1	NOCLAR – to change from ‘Professional Services Other than Audits of Financial Statements’ to ‘Assurance Services Other than Audits and Reviews of Financial Statements’	As mentioned above – we do not support a modification to the International Code in this regard.
NZ 400.2	This Part applies to both audit and review engagements.	No specific comments

¹ As defined in [section 42D\(1\)\(b\) of the Charities Act 2005](#)

NZ 400.2.1	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.	<p>The FMC Act and Regulations introduced a number of assurance engagements which are intended to assist with regulation of financial markets and have a public interest element. By way of example:</p> <ul style="list-style-type: none"> • s218 / reg 108 – audit / review of registers • reg 87 / reg 248 – assurance engagements of custodians / derivative issuers • s402 – engagements around standard conditions of market services licences (in some cases these are agreed-upon procedures engagements rather than assurance engagements). <p>It is likely the public would expect that these engagements are subject to the same independence requirements as an FMC audit. We recommend the scope of this Part be expanded to encompass such engagements – perhaps any assurance engagement required by law or regulation to be performed by a qualified auditor within the meaning of s461E of the FMC Act. In our view this is a NZ-specific situation which would meet the compelling reason test to modify the International Code.</p>
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.	If there is a compelling reason to include this paragraph, it could be argued that this is application material since the framework does already require it, albeit implicitly.
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 end or decline the engagement.	We note this duplicates paragraph R120.10, therefore we are unsure whether this needs to be repeated.

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.	We support the inclusion of this paragraph as it provides assistance with applying the legal framework in New Zealand ² .
NZ 900.13.1	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.	We refer to our comments on paragraph NZ 400.2.1.
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.	We refer to our comments on paragraph NZ R400.12.1.
NZ R905.3.1	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 end or decline the engagement.	We note this duplicates paragraph NZ R410.3, and we refer to our comments on that paragraph.

² [Section 36\(4\)\(c\) of the Financial Reporting Act 2013](#)

8. Do you consider there are any weaknesses or gaps in the proposals that need to be addressed in the New Zealand context? If so, please provide details.

We do not believe it is appropriate for paragraph R310.13 on documentation to be referred to a paragraph which does not address documentation. We believe it is better addressed as a NZ paragraph that reads along the lines of *“The assurance practitioner is encouraged to document all matters set out in this section.”*

Proposed paragraphs R310.12, 310.12 A1 and R310.13 are deleted by the NZAuASB and refer to NZ R310.12.1 – which does not exist. We assume this should be NZ R310.12.

In the contents page (first page of the ED) there is a spelling error in ‘independence’.

The definition of “assurance team” is the same as the International Code, therefore should not be prefixed with [NZ].

9. Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposals? If so, please provide details.

Section 3.6.3(f) of the extant [NZX Listing Rules](#) (and section 2.13.3(f) of the revised [NZX Listing Rules](#) effective 1 January 2019) require the audit engagement partner (key audit partner in revised rules) to be *“changed at least every five years”* (a cooling-off period is not specified). The cooling-off period requirements in proposed paragraphs R540.11-13 all assume a time-on period of seven years which may be taken to mean there is no cooling-off period after a five year time-on period for listed issuers. We recommend these paragraphs be amended to *“seven cumulative years or a shorter rotation period where required in regulations”* or by the addition of a footnote similar to that in paragraph 290.149 of extant PES 1.

10. Are there any issues arising from the proposed Code that you consider the NZAuASB should raise with the IESBA when the International Code is next updated? If so, please provide details.

We acknowledge and support the improvements the IESBA has made in relation to enforceability of the International Code. We also consider use of the “reasonable and informed third party test” to be generally positive for enforceability. However, we consider it important that the test be applied consistently with the use of objective wording. Subjective wording such as “knowingly” or “the professional accountant considers” tends to weaken enforceability and should be avoided.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	6 December 2018
Subject:	Prospective Financial Information
Date:	22 November 2018
Prepared by:	Sharon Walker

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is to UPDATE the Board on progress to date and REQUEST direction on the issues presented in the issues paper at agenda item 7.2.

Background

2. The Board approved a project proposal to develop a standard for the performance of, and reporting on, assurance over prospective financial information at its October 2017 meeting.
3. At its February 2018 meeting, the Board considered initial issues and agreed to:
 - Use ASAE 3450¹ as a base, and to expand the scope to tailor the standard to better reflect the needs of New Zealand stakeholders, including:
 - broadening the scope to address financial and non-financial prospective financial information;
 - adding specific public sector guidance where necessary; and
 - amending the title to better reflect the use in New Zealand.
 - Permit the assurance practitioner to perform a reasonable assurance engagement over prospective financial information.
 - Consider the relevance of references in ASAE 3450 to external documents including, where necessary, to add applicable guidance.
 - Explore further ethical considerations including whether APES 350² and/or APES 345³ are needed in New Zealand.

¹ ASAE 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*

² APES 350, *Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document*

³ APES 345, *Reporting on Prospective Financial Information prepared in connection with a Public Document*.

Matters to Consider

4. The Board is asked to CONSIDER the issues identified in agenda item 7.2 and PROVIDE direction.

Material Presented

Agenda item 7.1

Board Meeting Summary Paper

Agenda item 7.2

Issues Paper

Issues paper:

Prospective Financial Information

A: Using ASAE 3450 as a base

1. ISAE 3400, *The Examination of Prospective Financial Information*, issued by the IAASB, is more than 20 years old and has not been revised in line with the convention used in ISAE 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*.
2. The Board has previously agreed to use ASAE 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as a base for a New Zealand standard, broadening the scope to address both financial and non-financial information and adding specific public sector guidance where necessary. The objective is to develop a framework neutral standard for use in New Zealand.
3. Retro-fitting ASAE 3450 is proving to be challenging given its specific focus of corporate fundraising and reference to the Corporations Act 2001. An engagement in accordance with ASAE 3450 is performed in accordance with either ASAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, or ASRE 2405, *Review of Historical Financial Information Other than a Financial Report*, as applicable. There is no equivalent to ASRE 2405 in New Zealand.
4. In our initial drafting of the New Zealand standard we have tried to limit changes to ASAE 3450 to only those words that need to change. This has resulted in a standard that is cumbersome and difficult to read and understand. Accordingly, we are asking for the Board's approval to make more extensive changes, as needed, particularly to the introduction and definitions sections, including limiting the definitions to only those terms that it is necessary to define, rather than repeating definitions of terms that may be defined in other standards. In New Zealand, all defined terms are included in EG Au4, *Glossary of Terms*.
5. In drafting the standard to meet New Zealand needs, particularly the introduction and definition sections, we are asking for the Board's approval to be flexible with the drafting, addressing concepts that are included in ASAE 3450 but where necessary using different words.

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| 6. Does the Board support allowing flexibility in the drafting to produce a framework neutral New Zealand standard? |
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B: Scope of the Project

7. ASAE addresses the following types of financial information:
 - Historical financial information
 - Pro forma historical financial information
 - Prospective financial information
 - Projection
 - Pro forma forecast
8. Engagements to report on historical financial information are addressed by the International Standards on Auditing (New Zealand) and the review engagement standards. Accordingly, to reduce the length and complexity of a New Zealand standard, we propose not to include the material addressing assurance over historical financial information.

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| 9. Does the Board agree that because assurance over historical financial information is addressed in the auditing and review standards, it can be excluded from the scope of this standard? |
|---|

10. ASAE 3450 contains requirements that are duplicative of the requirements in ISAE (NZ) 3000

11. (Revised), for example, the requirements addressing: complying with standards that are relevant to the engagement; ethical requirements; quality control; inability to comply with the requirements of this ASAE or other AUASB standards. The assurance practitioner is required to apply ISAE (NZ) 3000 (Revised) and any engagement specific standards that apply. It is, therefore, unnecessary to repeat requirements of ISAE (NZ) 3000 (Revised) in the engagement standard.
12. We propose that the requirements and guidance in the New Zealand standard be limited to those considerations beyond ISAE (NZ) 3000 (Revised).

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| 13. Does the Board support the proposal that the New Zealand standard be limited to the practitioner's considerations beyond ISAE (NZ) 3000 (Revised)? |
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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 6 December 2018

Subject: Modified audit reports

Date: 23 November 2018

Prepared by: Peyman Momenan

<input type="checkbox"/> Action Required	<input checked="" type="checkbox"/> For Information Purposes Only
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Objective

For the Board to note the summary of modified auditor reports received by the XRB between 1 July 2018 and 23 November 2018.

Introduction

1. In September 2016, the XRB approved a policy for dealing with modified audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013. The policy requires the NZAuASB to consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
2. In December 2016, the policy was supplemented by an operating procedure (OP) document including specific actions that the XRB and its boards (including the NZAuASB) need to take to operationalise the policy. The OP requires the NZAuASB staff to review the received modified audit reports to:
 - Identify categories of modified audit opinions that affect auditing & assurance standards
 - Identify trends, if any
 - Refer any strategy-related issues to the XRB Board staff team, as appropriate
 - Make appropriate recommendation to the NZAuASB, as necessary
3. The OP requires staff to report to the NZAuASB at least every 6 months on matters including:
 - the number of audit reports received
 - the types of modified audit opinions
 - the nature/subject matter of the modified opinions
 - whether the modified audit opinions have implications for any XRB standards and/or XRB strategy/standards frameworks
 - any emerging trends.

4. The Board had previously seen the summary of modified audit reports up to end of June 2018 at the July 2018 meeting. The next report will be presented at the Board's July 2019 meeting.

Matters to consider

5. We have prepared a summary of the reasons for the qualifications by modification type to consider if there are any implications for the XRB standards. A summary of the reasons for the modified audit reports received from 1 July 2018 to 23 November 2018 is attached at agenda item 9.2.
6. We have not identified any implications for the auditing and assurance standards and have no recommendations for further action required by the NZAuASB. It is worth mentioning that the accounting staff have also not identified any implications for the accounting standards when they present their analysis to the NZASB in December 2018.

Recommendations

7. It is recommended that the Board **NOTE** the contents of this report.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Summary of modifications

Modified Auditor Reports received by the XRB between 1/7/2018 and 23/11/2018**A) Modified Auditor Reports**

Modification in relation to	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion		Grand Total	
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence
Appropriateness of using the Going Concern assumption		1				1
Deferred Tax and Depreciation of PPE			1		1	
Fair value measurement of financial instruments		1		2		3
Inventories				1		1
Investment properties not measured at fair value				1		1
No provision for potential tax liability				1		1
Presentation of financial instruments			4		4	
Valuation of intangible assets				1		1
Valuation of Investment in associated entities				2		2
Total	0	2	5	8	5	10¹

¹ One modified report includes two separate qualifications. Therefore, while there are 14 audit reports in the period, the total of modifications adds up to 15.

Modified Auditor Reports received by the XRB between 1/7/2018 and 23/11/2018

ID number ² Nature of industry Balance date Audit report date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action
156 Venture investment 31 Dec 2017 23 Apr 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support all the values relating to the investment in associate as it is based on unaudited financial information.	NZ IAS 27 <i>Separate Financial Statements</i> NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	Nil. We did not identify any issues with the accounting standards. This is an assurance procedure matter.
157 IT solution provider 31 Mar 2018 31 Jul 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support all the values relating to the investment in associate as the auditor could not access the financial information and management of the associate.	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	Nil. We did not identify any issues with the underlying auditing standards.
158 Software and app developer 31 Mar 2018 29 Jun 2018	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence to support the going concern assumption.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the underlying auditing standards.
159 Property investment 30 Jun 2017 18 Jun 2018	Qualified opinion Departure from NZ IFRS. The entity has valued investment properties using the land values of the council's rating valuation rather than fair value or cost in accordance with NZ IAS 40 <i>Investment Property</i> . The entity has not recognised the income tax effect on insurance proceeds and the transfer of deferred tax to income tax expense in accordance with NZ IAS 12 <i>Income Tax</i> .	NZ IAS 40 <i>Investment Property</i> NZ IAS 12 <i>Income Tax</i>	Nil. We did not identify any issues with the underlying auditing standards.
160 ³ Investment 31 Mar 2018 24 Jul 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support the carrying amount of an equity investment.	NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the underlying auditing standards.
161 ⁴ Investment 31 Mar 2018 24 Jul 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support the carrying amount of an equity investment.	NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the underlying auditing standards.
162 ⁴ Investment 31 Mar 2018 24 Jul 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support the carrying amount of an equity investment.	NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the underlying auditing standards.

² From internal database.

Modified Auditor Reports received by the XRB between 1/7/2018 and 23/11/2018

ID number ² Nature of industry Balance date Audit report date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action
163 Beverage manufacturing 31 Dec 2017 18 May 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support the carrying amount of goodwill and brands.	NZ IAS 38 <i>Intangible Assets</i>	Nil. We did not identify any issues with the underlying auditing standards.
164 Cosmetics manufacturer 31 Mar 2018 20 Aug 2018	Qualified opinion Unable to obtain sufficient appropriate audit evidence to support the opening carrying value of inventories because the auditor was unable to attend the stocktake or to support the value through alternative means.	NZ IAS 2 <i>Inventories</i>	Nil. We did not identify any issues with the underlying auditing standards.
165 ⁴ Property development 31 Mar 2014 20 Aug 2018	Qualified opinion Departure from NZ IFRS Diff Rep. The entity has classified redeemable preference shares as an equity instrument rather than a liability.	NZ IAS 32 <i>Financial Instruments: Presentation</i> NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the underlying auditing standards.
166 ⁵ Property development 31 Mar 2015 20 Aug 2018	Qualified opinion Departure from NZ IFRS Diff Rep. The entity has classified redeemable preference shares as an equity instrument rather than a liability.	NZ IAS 32 <i>Financial Instruments: Presentation</i> NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the underlying auditing standards.
167 ⁵ Property development 31 Mar 2014 20 Aug 2018	Qualified opinion Departure from old NZ GAAP. The entity has classified redeemable preference shares as an equity instrument rather than a liability.	FRS-31 <i>Disclosure of Information about Financial Instruments</i>	Nil. We did not identify any issues with the underlying auditing standards.
168 ⁶ Property development 31 Mar 2015 20 Aug 2018	Qualified opinion Departure from old NZ GAAP. The entity has classified redeemable preference shares as an equity instrument rather than a liability.	FRS-31 <i>Disclosure of Information about Financial Instruments</i>	Nil. We did not identify any issues with the underlying auditing standards.
169 Irrigations scheme operator 30 Jun 2018 11 Oct 2018	Qualified opinion Departure from NZ IFRS. The entity has not depreciated a pump-shed building and not considered the deferred tax implication of this.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 12 <i>Income Tax</i>	Nil. We did not identify any issues with the underlying auditing standards.

³ These are three separate legal entities, all with different names, which have the same modified audit opinion.

⁴ This is the same entity but for different reporting periods.

⁵ This is the same entity but for different reporting periods.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 23 November 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 October and November 2018.

International Federation of Accountants (IFAC)

1. IFAC Incoming CEO Kevin Dancey makes the case against audit-only firms in [this POLITICO Pro Op-Ed](#).
2. On 2nd of November, IFAC announced the election of Dr. In-Ki Joo of the Republic of Korea as its President. Dr. Joo will serve a two-year term through November 2020, serving previously as IFAC Deputy President since November 2016.
3. IFAC [calls upon G20 countries](#) to pursue smart regulation, heightened transparency, and inclusive growth to rebuild trust in institutions and advance global economic progress.

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1)
2. The IAASB seeks public comment by March 15, 2019 on its [Exposure Draft of proposed ISRS 4400 \(Revised\), Agreed-Upon Procedures Engagements](#).

The demand for Agreed-upon procedures (AUP) engagements continues to grow across jurisdictions. Changes in regulation, such as the increase in audit exemption thresholds in many jurisdictions, have also driven increased demand for AUP engagements. This is especially relevant for smaller entities, as the increased audit exemption thresholds prompt stakeholders to look for alternative services to an audit.

3. As part of the IAASB's focus on professional scepticism, [this publication](#) provides an update on the IAASB's efforts to appropriately reflect professional scepticism in its recently-issued, and soon-to-be-issued, standards and exposure drafts. It also includes other relevant news and information, and recent activities of the IESBA and IAESB, related to professional scepticism.

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

Public Interest Oversight Board of IFAC (PIOB)

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

International Integrated Reporting Council (IIRC)

1. Major international corporate reporting standard setters and framework providers [announced in November 2018](#) a ground-breaking new two-year project focused on driving better alignment in the corporate reporting landscape, to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society.

Launched simultaneously at the Bloomberg Sustainable Business Summit in London and in Sydney, during the World Congress of Accountants 2018, Corporate Reporting Dialogue participants committed to driving better alignment of sustainability reporting frameworks, as well as with frameworks that promote further integration between non-financial and financial reporting.

2. New research, guidance and core indicators for integrated reporting by enterprises in how they are contributing to the Sustainable Development Goals (SDGs), [was released](#) at the United Nations in Geneva on 24 October 2018, in partnership with the IIRC.

Agenda 2030 provides the context to accelerate global progress towards the integration of financial and non-financial reporting, IIRC Chief Executive Officer Richard Howitt said in his keynote address opening the 35th session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, (ISAR).

The core indicators and accompanying guidance are intended to be 'opening benchmarks' for business reporting of the SDGs, and will be promoted by UNCTAD with the support of the IIRC during the next year.

These indicators are in line with the IIRC's philosophy that reporting of the SDGs must be integrated, and understood in the context of value-creation for the company, if it is genuinely going to become mainstream.

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

International Organization of Supreme Audit Institutions (INTOSAI)

1. Upon the invitation of the Accounts Chamber of the Russian Federation the [71st INTOSAI Governing Board meeting](#) took place in Moscow with around 90 participants on November 15 and 16, 2018.

International Organization of Securities Commissions (IOSCO)

1. The Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of

Securities Commissions (IOSCO) published in November their final report on [Incentives to centrally clear over-the-counter \(OTC\) derivatives](#).

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. No update for the period.

United Kingdom

FRC

1. The Financial Reporting Council (FRC) is [consulting with stakeholders](#) to determine how effective the changes to ethical and auditing standards in 2016 have been in delivering high quality audit, and whether further steps are now needed to strengthen auditor independence, reduce conflicts, improve quality and preserve trust in independent audit.
2. The FRC will, in 2019/20, supplement its routine AQR monitoring programme with two thematic reviews. These thematic reviews, which focus on aspects of audit practice across a number of firms to identify both scope for improvement and good practice, complement other AQR work, all with the over-riding objective of driving improvements in audit quality.

The thematic review topics are:

- Audit Quality Indicators (AQIs): An assessment of the development and use of AQIs by UK audit firms. This review commenced during our 2018/19 inspection programme and will be delivered in 2019/20
- The use of technology in audits. We reported on firms' use of data analytics in January 2017. We will revisit the progress that the firms have made since, how the use of technology has widened beyond data analytics and the potential impact upon audit quality

The FRC will publish its 2018/19 thematic review of "The Auditors Work on Other Information in the Annual Report" later in 2018, followed by a report on Audit Firm Transparency Reporting in the first quarter of 2019.

Institute of Chartered Accountants in England and Wales

1. ICAEW [has responded](#) to the IAASB's consultation on the Proposed International Standard on Auditing (ISA) 315: Identifying and Assessing the Risks of Material Misstatement. ICAEW urges the IAASB to re-consider the proposals in the public interest because of major concerns with the clarity of the proposals and their scalability to a wide range of sizes and complexity of audits.

The Charity Commission

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

Association of Chartered Certified Accountants (ACCA)

1. [A survey of 1,000 members](#) of the general public by ACCA (the Association of Chartered Certified Accountants) reveals auditors are expected to play a crucial role in company safeguarding.
 - 48% of the UK public believe it is auditors who are responsible for avoiding company failures
 - 41% expect auditors to always detect and report any fraud
 - 65% believe audit should evolve to prevent company failures

However, only a quarter of respondents were able to accurately identify what an auditor does – give an opinion on whether the financial statements of a company give a true and fair view and do not include material misstatements due to fraud or error.

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. The ASB discussed proposed changes to the exposure draft Proposed Statements on Auditing Standards—*Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*, to address comment letter responses. Major conclusions reached included the following:
 - Retaining flexibility in the auditor's report relating to the timing of communications with those charged with governance and consider including additional examples relating to items that may be important to communicate prior to issuance of the auditor's report.
 - Continued exploration of including the city and state of the addressee in the auditor's report inclusion of a statement in the Basis for Opinion section that the auditor is required to be independent and to meet relevant ethical requirements, rather than an affirmative statement about independence.
 - Inclusion of language in the auditor's report relating to management's and auditor's responsibilities relating to going concern
 - Acceptance of proposed revisions to the auditor's responsibilities paragraph relating to communications with those charged with governance.

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

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

Canada

Canadian Auditing and Assurance Standards Board (CAASB)

1. The AASB approved CAS 540, Auditing Accounting Estimates and Related Disclosures, including the related conforming amendments to other standards. The Board concluded that no significant changes were made in finalizing the standards from a Canadian standpoint (i.e., the changes did not require an addition, modification, or deletion of a Canadian amendment); therefore, no re-exposure was necessary. CAS 540 will be effective for audits of financial statements for periods ending on or after December 15, 2019. It is expected to be included in the CPA Canada Handbook – Assurance update in early 2019.
2. The AASB approved amendments to CAS 700, Forming an Opinion and Reporting on Financial Statements. It requires auditors to communicate key audit matters in the auditor's report for audits of complete sets of general purpose financial statements of Toronto Stock Exchange (TSX)–listed entities, other than entities that are required to comply with National Instrument 81-106, Investment Fund Continuous Disclosure. The Board concluded that the amendments are significantly different from the current standard. However, the changes are consistent with proposals in the 2015 Invitation to Comment, "Implementation Considerations for New Auditor Reporting Standards." Those proposals were broadly supported by stakeholders; therefore, no re-exposure was necessary. The amendments will be effective for audits of financial statements for periods ending on or after December 15, 2020 and are expected to be included in the December 2018 Handbook update.

The AASB also discussed the potential expansion of the communication of key audit matters for investment funds and other listed entities. The Board plans to discuss an exposure draft dealing with proposals for such communications at its December 2018 meeting.

3. The AASB reviewed comments received from Canadian stakeholders on the its Exposure Draft of proposed revisions to CAS 315, Identifying and Assessing the Risks of Material Misstatement. Issues respondents raised that the Board discussed included:
 - the enhancement and clarification of requirements related to the auditor's identification of controls relevant to the audit; and
 - the separate assessment of inherent and control risk at the assertion level.
 - The Board discussed its draft response letter to the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft with the same title. It will review a final draft of the response before submission in early November 2018.
4. The AASB also unanimously approved the Canadian Exposure Draft Supplement to its Exposure Draft of proposed revisions to CAS 315. The Exposure Draft Supplement proposes conforming amendments to CAS 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards, and CAS 540. The Exposure Draft Supplement is expected to be issued in January 2019, with a response deadline of May 1, 2019.
5. The AASB discussed Canadian 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, including the proposed scope of the Canadian equivalent standard.
6. The AASB discussed Canadian issues related to its project to consider adopting International Standard on Related Services (ISRS) 4400 (Revised), Engagements to Perform Agreed-upon Procedures Regarding Financial Information, including the content for a Canadian exposure draft. The Board is expected to approve a Canadian exposure draft by written ballot in November 2018.

CPA Canada

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

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

	<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>The Board discussed a draft ED of proposed ISA 220 (Revised)² and was supportive of the proposed changes. The discussions focused on whether changes were needed to the objective of the standard and the wording of the requirement regarding the engagement partner being “sufficiently and appropriately involved.” The Task Force plans on presenting the ED of proposed ISA 220 (Revised) for approval by the Board at the December 2018 meeting.</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</p>
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	<p>proposed exposure draft that addresses the application of the standard to a spectrum of firms.</p> <p>The Board discussed the exposure draft (ED) of proposed ISQC 1 (Revised)¹ and was supportive of the direction that the Quality Control Task Force was taking the standard, noting the improvement in the readability and understandability overall. The Board encouraged the Quality Control Task Force to consider whether there are further opportunities to address scalability, including further refinement and simplification of the standard, where possible. The Board also discussed changing the title of the standard (to International Standard on Quality Management 1); how the public interest, professional judgment, and professional skepticism are addressed in the standard; the responsibilities of a firm that belongs to a network; and communication with external parties. The Quality Control Task Force plans on presenting the ED of the revised standard for approval by the Board at the December 2018 meeting</p>
<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> <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>In September 2018 meeting, The Board received an update on the activities of the IAASB's Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB's efforts to appropriately reflect professional scepticism into the IAASB standards as well as other relevant</p>
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	<p>news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board supported the issuance of the publication and future publications of this nature.</p>
<p>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to Financial Institutions (No 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> <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>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</p>

	<p>“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>The ISA (540) was approved in IAASB’s June 2018 meeting.</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> <p>A) Explore emerging developments in audit data analytics; and</p> <p>B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication “The IAASB’s Work to Explore the Growing Use of Technology in the Audit” in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB’s Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work 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</p> <p>Update for the period</p> <p>No</p>	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <p>A) Explore emerging developments in integrated reporting and other emerging developments in external reporting;</p> <p>B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and</p> <p>C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p>Background and current status: 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</p>

	<p>engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG <u>Supporting Credibility and Trust in Emerging Forms of External Reporting</u> in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide thought leadership on assurance issues and coordinate its work with other relevant organizations.</p> <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> <p>In its September 2018 meeting, the EER Task Force presented the remaining Phase 1 'issues' that were not presented in June alongside a first draft of the Phase 1 guidance. The Board noted the need for the guidance to demonstrate its full alignment with the requirements of ISAE 3000 (Revised), 5 and for the EER Task Force to provide further explanations about any guidance that goes beyond the requirements and application material in ISAE 3000 (Revised). The EER Task Force expects to receive further input from stakeholders during its forthcoming series of discussion events and will present a revised draft of the guidance to the IAASB in December 2018.</p>
<p>Agreed-Upon Procedures</p> <p>No Update for the period</p>	<p>The objective of the project is to:</p> <ul style="list-style-type: none"> A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards. <p>Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop</p>

	<p>new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards, to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.</p> <p>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>In its September 2018 meeting, The Board approved the ED of ISRS 4400 (Revised)³ for public exposure. In finalizing the ED, the Board agreed that independence is not required for an AUP engagement and that the AUP report would include statements addressing circumstances when the practitioner is (or is not) required to be independent, and whether the practitioner is (or is not) independent. The ED will be issued in early November with a 120 day comment period</p>
<p>ISA 315 (Revised) No Update for the period</p>	<p>The tentative objectives of the projects at this stage are:</p> <ul style="list-style-type: none"> A) to address the issues that have been identified by the ISA Implementation Monitoring project. B) Possible changes that may be necessary to ISA 315 (Revised) to enhance the requirements and guidance for evolving environmental influences (such as changing internal control frameworks and more advanced technology systems being utilized by both management and auditors). C) In its June 2016 meeting, the IAASB directed the ISA 315 (Revised) Working Group to present a project proposal for the IAASB's consideration at its September 2016 meeting to commence standard-setting activities. The project proposal was presented and approved in the IAASB's September 2016 meeting. <p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the March meeting papers.</p> <p>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</p>

	<p>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> <p>The ED was issued in July 2018 for public consultation.</p>
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NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 23 November 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 October and November 2018.

Financial Markets Authority (FMA)

1. The Financial Markets Authority and Reserve Bank of New Zealand have completed [their joint review into the conduct and culture of 11 New Zealand banks](#). The review is the first of its kind in New Zealand.
2. The FMA in November 2018 published [Bank Incentive Structures](#), its thematic review of how banks in New Zealand incentivise their staff. The report sits alongside the recently published joint FMA/Reserve Bank of New Zealand Conduct and Culture **review of New Zealand's banks. Today's report is published separately, reflecting that** this work was carried out by the FMA only.

The New Zealand Institute of Chartered Accountants

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

CPA Australia

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

The Institute of Directors (IoD)

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

Sustainability Matters

1. An [interesting article](#) on sustainability

To: NZAuASB members
From: Rowena Sinclair
Date: 21 November 2018
Re: Academic update 2018-7

The final update for the year incorporates academic studies that focus on two key stakeholders of the audit quality framework (refer *Figure 1*): auditors and regulators (IAASB, 2014). Many of the academic studies are USA based, but, these studies provide insights into potential similar impacts in New Zealand.

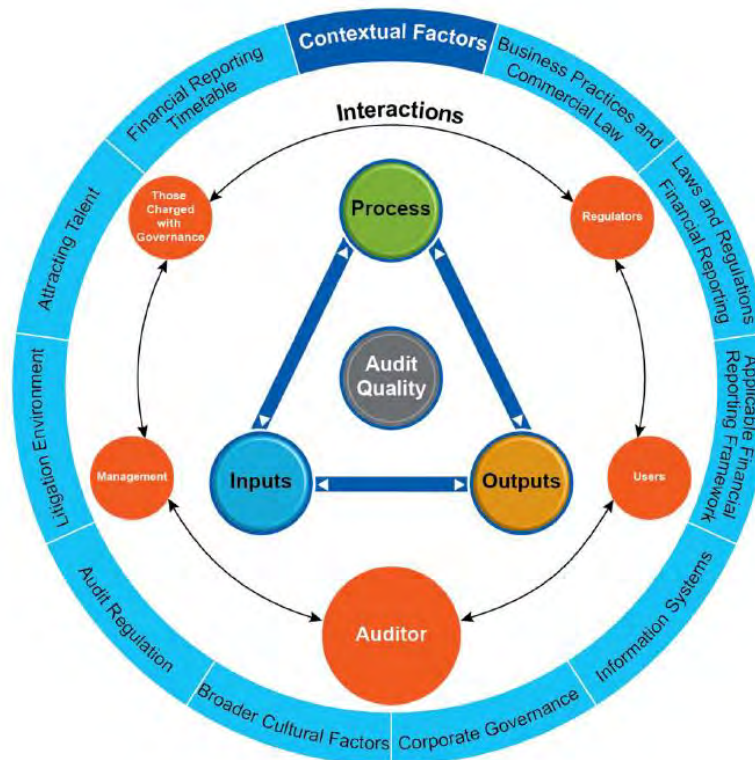


Figure 1: Audit Quality Framework (IAASB, 2014, page 5)

(1) AUDIT QUALITY – AUDITORS/AUDIT FIRMS

Big Four and non-Big Four auditors

Chiu, Chien & Lin (2017) find a reduced gap in audit quality between Big Four and non-Big Four auditors after Public Company Accounting Oversight Board (PCAOB) inspections. Chui et al. (2017, page 943) interpret their results as “*supporting the view that audit quality has improved after the shift from self-regulation to government regulation*”.

Small accounting firms

Small firms often join forces through accounting associations and networks (AANs) to enhance their capabilities. Bills, Hayne & Stein (2018) consider the implication for audit quality on small firms’ membership of AANs. Bills, et al. (2018, page 92) find that small firms “*perceived that AAN membership positively influences their firms’ audit quality, primarily through the sharing of expertise, best practices, and training*”.

However, Bills, et al. (2018, page 92) also highlight potential negative impacts of AANs membership including the “*negative risks of losing internal expertise or overconfidence in the work performed by other member firms*”.

(2) AUDIT QUALITY - REGULATORS

Independence of audit oversight bodies

Loehlein (2017) examines the independence of the audit oversight bodies of 27 European Member States and the USA. The study found that *“while all countries claim to possess formal independent oversight bodies, there is a visible gap between countries with comparatively strong independent oversight authorities, such as Italy and Luxembourg, and systems in which accounting bodies still maintain far-reaching regulatory influence, such as Ireland and Belgium”* (Loehlein, 2017, page 177).

Regulatory bodies and Firm quality

Eldaly & Abdel-Kader's (2018, page 343) UK study identified three main strategies followed by the UK's Financial Reporting Council (FRC) *“to promote the trust and enhance the choice of auditors in the UK audit market”* (refer Table 1):

FRC's projects	Purpose	Criticism/shortage	Suggested action	Expected outcome
1. Inspecting audit firms	Improved audit quality	Inspected firms have concerned regarding the inspection's process	FRC's inspectors need to know auditors' feedback	Conducting more effective inspections
2. Reviewing audit competition's drivers	Increased transparency	NA	We suggest more drivers: people and relationships	Better transparency
3. Mandating transparency reports in	Increased transparency	NA	NA	NA
4. Firms' ownership's rules	Increased auditing competitions	Non-practitioners will invest more in the Big 4 firms as they are more profitable; this will reduce the competition. This affects auditors' independence	Avoiding this debate	Mitigate a threat of auditors' independence
5. appointing independent non-executives	Increased transparency	Non-executives are selected and paid by audit firms	investors should be consulted in the INEs' appointment	Increase the reliability of information provided about big audit firms
6. limited liability agreements	Increased auditing competitions	Shareholders never agreed to apply such agreements	Mandating auditors' limited liabilities	Increase the number of big audit firms

Table 1: The FRC's projects to rebuild public trust in auditors and suggestion actions (Eldaly, et al., 2018, page 355)

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