

26 June 2019

Mr Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Ken,

IESBA Consultation Paper, Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised).

Thank you for the opportunity to comment on the Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised). We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners.

The NZAuASB's mandate is limited to developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners. This applies only to professional accountants in their role as assurance practitioners.

The NZAuASB supports the IESBA's objective to make the provisions in Part 4B of the Code consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). Inconsistent terminology between the IESBA and IAASB will undermine the appropriate application of both the Code and the IAASB's standards.

The NZAuASB believes that, except for the introduction of the term "assurance client", the ED is helpful in reducing the inconsistencies between the Code and the IAASB's standards. The NZAuASB views on the term "assurance client" is included in their answer to Question 1.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



Robert Buchanan
Chairman – New Zealand Auditing and Assurance Standards Board

Email: robert@buchananlaw.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Consultation paper: *Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)*,

I Schedule of Responses to the IESBA's Specific Questions

1. Do you believe that the changes in the key terminology used in the Exposure Draft, including the definition of 'assurance client', are clear and appropriate for use in Part 4B?

Response:

We agree that, except for the use of the term "assurance client" discussed below, the key terminology used in the Exposure Draft are clean and appropriate for use in Part 4B

We do not believe that use of the term "assurance client" is appropriate due to the following reasons.

A) The definition of an assurance client may be too restrictive

Both the current and the proposed definitions of an "assurance client" only include the responsible party, and where applicable the party taking responsibility for the subject matter information. However, the ISAE 3000 (Revised) envisage circumstances where other influential parties might be involved in an assurance engagement. The dynamics of such relationships may pose threats to the professional accountants' independence. Restricting the professional accountants' independence to the "assurance client" is likely to undermine the importance of such threats that may arise in relation to parties not included in the definition of an assurance client. For example, where the engaging party is different to the responsible party, the professional accountants' fees might be paid by the engaging party. Under such circumstances, the considerations under 905.3 A1 to 905.9 A3 seem irrelevant (as no fee is paid by the assurance client as defined). However, the relationship between the engaging party and the professional accountants may require consideration of these matters.

B) It might be inappropriate to refer to parties other than the intended users of an assurance engagement as "clients"

In an assurance engagement the ultimate objective of the professional accountant is to address the needs and interests of the intended users/beneficiaries of their reports. Referring to parties other than the intended users of the assurance report as "clients" may inadvertently affect the mind set of the professional accountant in a manner inconsistent with the objectives of an assurance engagement.

We suggest the following modifications to the Exposure Draft to be address these concerns.

R900.14 A firm performing an assurance engagement shall be independent ~~of the assurance client~~.

~~900.14 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).~~

900.14 ~~A2~~ ¹The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. ~~Notwithstanding the potential diversity of these roles, the firm shall always be independent of the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information.~~

900.14 A2 In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to

prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, **the firm shall be independent of both** the responsible party and the party responsible for the subject matter information ~~are both assurance clients for the purposes of this Part.~~

900.14 A3 When a firm knows or has reason to believe that interests and relationships of parties other than those described in paragraph 900.14 A1 create a threat to the firm's independence, the firm shall evaluate and address any such threat. For example, where the engaging party is different to the responsible party, the firm's fees might be paid by the engaging party. Under such circumstances, the considerations under 905.3 A1 to 905.9 A3 may apply to the firm's relationship with the engaging party rather than the responsible party.

2. Do you have any comments on the application of the IESBA's proposals to the detailed independence requirements and application material as explained above and summarized in the appendix?.

Response:

Treatment of ISA 805 (Revised) and classification of different types of assurance service

We identified in our response to the IESBA's ED for phase 2 on improving the structure of the Code that we find the classification of audits of specific elements, accounts or items of a financial statement which are conducted under ISA 805 (Revised) very confusing. If an auditor is performing an audit of specific elements, accounts or items of a financial statement in accordance with International Standards on Auditing, it is not clear why Part 4B, *Independence – Assurance Engagements*, rather than Part 4A, *Independence – Independence for Audits and Reviews*, should apply. We do not believe that the addition of sentence that 'the term does not refer to specific elements, accounts or items of a financial statement' to the definition of financial statements in the Glossary helps to reduce this confusion.

Split of assurance engagements (audit and review engagements vs other engagements)

Part 4A of the Code considers that certain circumstances are perceived to result in a higher level of threats to independence for audit or review engagements over the financial statements of Public Interest Entities (PIE). The underlying driver for this approach seems to be the fact that the public interest aspect of certain engagements is of such significance that a more detailed set of rules is required to reduce the likelihood of damaging the public interest. We believe that this is a principled approach and recommend that this approach is extended to assurance engagements other than audits or reviews of financial statements.

While we appreciate that the detailed additional requirements in Part 4A of the Code that apply to an audit or review of PIEs cannot be simply extended to apply to assurance engagements other than audits or reviews of PIEs, we nevertheless believe that these additional considerations provide an appropriate foundation for developing similar specific requirements for assurance engagements with significant public interest.

3. Do you have any comments on the other proposed changes, including on the consistency of terms and concepts in Part 4B in relation to the text of ISAE 3000 (Revised)? If so, please specify the area of inconsistency and suggest alternative wording.

Response:

Other than matters relation to our response to Q1 and 2, we have no further comments on the specific wording changes proposed in the ED.

4. Are there any other matters that you consider should be addressed with respect to the alignment with ISAE 3000 (Revised) in Part 4B or in other material, for example in an IESBA Staff publication? If so, please provide sufficient explanation, including practical examples of the matter where available.

Response:

We have not noted any other matters to comment.

5. Do you agree with the proposed effective date? If not, please indicate why not and explain your reasoning

Yes, we agree with the proposed date.

General Comments:

The NZAuASB does not have any further comments on the ED.