

XRB & NZAuASB, 2017



N
AND ASSURANCE
STANDARDS BOARD

EXPOSURE DRAFT NZAuASB 2017-1

PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED) PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

(ED NZAuASB 2017-1)

Invitation to Comment

May 2017

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Information for Respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising amendments to PES 1 (Revised).

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz

(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is 31 July 2017.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance, including professional and ethical, standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
EP	Engagement partner
EQCR	Engagement quality control reviewer
FMA	Financial Markets Authority
IESBA	International Ethics Standard Board for Accountants
ISA (NZ)	International Standard on Auditing (New Zealand)
NZAuASB	New Zealand Auditing and Assurance Standards Board of the External Reporting Board
OAG	Office of the Auditor-General
PES	Professional and Ethical Standard
PIE	Public Interest Entity

Questions for Respondents

	Paragraphs
1. Do you agree with the proposals to adopt the revised international requirements dealing with long association?	10
2. Do you agree that:	
(a) The New Zealand PIE definition remains appropriate in light of the international changes made to the long association provisions?	
(b) applying the revised requirements to all PIEs as defined in New Zealand is in the public interest?	
If not, please explain why and for which entities. Please expand on whether your concerns are related to auditor supply pressures (quantified where possible), or unintended consequences, or both. It is important we have evidence to justify our decisions. <i>Please bear in mind that the PIE requirements extend beyond the long association requirements, and therefore the impact of amending the PIE definition is not limited to long association considerations.</i>	11-23
3. Do you consider that it is in the public interest to retain entities that voluntarily report using the tier 1 reporting requirements within the New Zealand PIE definition?	
If not, do you consider that including such entities within the New Zealand PIE definition:	
(a) creates even further auditor supply pressures, that are contrary to, rather than in the public interest?	24-27
(b) has any other unintended consequences?	
It is important that we have evidence to justify any changes so please explain why, including where possible evidence to support the number of entities that are voluntary PIEs, and explanations as to why entities elect to do so, to support your view that it is not in the public interest to include these entities as PIEs.	
4. For dual listed entities (listed on the NZX and ASX), do you consider there to be unintended consequences of having different rotation requirements for the engagement partner for listed entities in New Zealand and Australia? If so, please explain.	28-30
5. Do you agree with the New Zealand proposal to align the auditor rotation requirements for audits of financial statements and other recurring assurance engagements for public interest entities? If not, why not?	31-35
6. The transitional provisions provide for an alternative cooling off period permitted under legislation or regulation that will have effect for audits of financial statements for periods beginning prior to 15 December 2023. The NZAuASB requests feedback on the impact of this transitional provision in the New Zealand context.	36-38
7. Do you consider any further compelling reason amendments are needed? If so, what amendments should be made and why?	
8. Do you have any other comments on ED NZAuASB 2017-1?	

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek comments on the proposals in ED NZAuASB 2017-1 *Proposed Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client* (the ED).

1.2 Background

2. The IESBA has recently completed its project to review the long association provisions of the International Code of Ethics to ensure they continue to provide robust and appropriate safeguards against familiarity and self-interest threats arising from long association with an audit client.
3. In August 2014, the IESBA issued an exposure draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*. In February 2016, the IESBA issued a *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*. In January 2017, the IESBA issued a close off document of the finalised amended provisions.
4. The NZAuASB has previously sought feedback on these international exposure drafts from their New Zealand constituents, which informed the New Zealand submission to the IESBA.
5. The NZAuASB's strategic approach is to adopt those applicable international auditing standards, including ethical standards issued by the IESBA, and to consider modifying those standards only if there are compelling reasons to do so. This ensures we remain internationally competitive while ensuring those standards reflect our New Zealand conditions. The NZAuASB generally considers that the compelling reasons test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with New Zealand regulatory arrangements or principles and practices that are considered appropriate in New Zealand. Any modification must result in a standard the application of which results in effective and efficient compliance with the legal framework in New Zealand and the modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.
6. Given the significance of the proposals for New Zealand, the NZAuASB has previously indicated its intention to consult separately on any proposed New Zealand modifications to the international long association provisions, but has delayed making any decisions about whether or what modifications may be necessary until the international provisions were finalised.
7. This exposure draft seeks feedback proposing minor amendments to the international requirements as well as whether additional amendments are necessary.

1.3 Timeline and Next Steps

8. Submissions on ED NZAuASB 2017-1 are due by 31 July 2017. Information on how to make submissions is provided on page 3 of this Invitation to Comment.