

29 October 2021

Robert Buchanan
Chair
New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Submitted electronically via www.xrb.govt.nz

Dear Robert

EXPOSURE DRAFT NZAuASB 2021-4 PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: NON-ASSURANCE SERVICES

1. The purpose of this submission is to provide the New Zealand Auditing and Assurance Standards Board (“NZAuASB”) with BDO’s comments on Exposure Draft NZAuASB 2021-4 *Proposed Amendments to Professional and Ethical Standard 1: Non-Assurance Services* (“the Exposure Draft”). More information on BDO is provided in Appendix A to this letter. Thank you for the opportunity to comment on the Exposure Draft.
2. BDO considers that high audit quality is important to New Zealand’s capital markets and those parties, such as businesses, lenders and investors, that utilise audited financial statements. For that reason, BDO considers that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible.
3. Further, BDO notes that auditor independence is fundamental to public trust in the audit profession and to the profession achieving high audit quality.
4. For these reasons, BDO supports the proposed changes in the Exposure Draft that mirror the changes made internationally by the International Ethics Standards Board for Accountants to the International Code of Ethics for Professional Accountants. We are particularly supportive of the proposals to:
 - a. Prohibit the provision of non-assurance services that might create a self-review threat in relation to an audit client that is a public interest entity (“PIE”)
 - b. Eliminate materiality as a factor in determining the permissibility of providing a nonassurance service to an audit client that is a PIE
 - c. Enable more robust engagement between firms and those charged with governance of PIE audit clients about independence matters relating to non-assurance services.

5. Although BDO considers that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible, we acknowledge that there are limited circumstances in which it is

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necessary for the standards adopted in New Zealand to deviate from international standards. We consider that such circumstances ordinarily only arise due to specific New Zealand legislative requirements, or because there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.

6. We note that the NZAuASB's proposal to limit the provision of non-assurance services in New Zealand to a greater extent than the provision of those services is limited internationally is based on research undertaken in New Zealand. Although we support research of this nature being undertaken, we do not consider that the research undertaken to date is sufficient to justify a deviation from international requirements and consequently do not support these proposals.
7. We note that the NZAuASB proposes the inclusion of additional application material in PES 1 *Code of Ethics for Assurance Practitioners* ("PES 1") on the types of work that typically do not create a self-review threat to independence when such work is related to an audit or review engagement. Although we consider that such information might in some circumstances be useful, we do not consider that this is one of the limited circumstances in which it is necessary for the standards adopted in New Zealand to deviate from international standards. Consequently, we do not support this proposal.
8. Our response to each of the questions posed in the Invitation to Comment that accompanies the Exposure Draft is provided in Appendix B to this letter.
9. We acknowledge that this submission may be made publicly available.
10. If you require further information or would like to discuss any aspect of our submission further, please do not hesitate to contact either of the authors.

Yours sincerely
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APPENDIX A:

INFORMATION ON BDO

1. BDO is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.

2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 93 partners and over 850 staff.
4. Three BDO firms in New Zealand (BDO Auckland, BDO Christchurch and BDO Wellington) are registered audit firms and those firms have eleven licensed auditors.
5. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 91,000 people working out of 1,658 offices across 167 countries and territories.

**APPENDIX B:
RESPONSES TO QUESTIONS POSED IN THE INVITATION TO COMMENT**

1. Our response to each of the questions posed in the Invitation to Comment is provided in the table below:

Question	BDO response
<i>New Zealand specific changes to tax advisory and tax planning services</i>	
<p><i>Question 1:</i></p> <p>Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 - NZ 604.15 A1)</p>	<p>As outlined more fully above, we consider that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.</p> <p>We note that the NZAuASB’s proposal to limit these services is based on a survey undertaken by External Reporting Board staff that received 115 responses. Although we consider that research of this nature can be a useful input to standard setting, we do not consider that, in this instance, the survey results provide evidence of the limited circumstances in which deviation from international standards is warranted having been met. Consequently, we do not agree with the proposed prohibition of these services.</p>

<p><i>Question 2:</i></p> <p>Do you foresee any unintended consequences of this prohibition?</p>	<p>As outlined above, we consider that deviation from international standards is only warranted in very limited circumstances. We in part take this view because international standard setting follows a robust process, involving extensive consultation and committee consideration, that is in part designed to ensure the internal consistency of promulgated standards. Where New Zealand specific changes are made to international standards, the following risks consequently arise:</p> <ul style="list-style-type: none"> • The risk that the New Zealand specific requirements will not be entirely consistent with all other requirements of the standard
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Question	BDO response
	<ul style="list-style-type: none"> • The risk of inconsistent requirements being applied by auditors in group audits across multiple jurisdictions • The risk that New Zealand specific requirements will be inconsistent with future changes to the international standard. <p>For these reasons, and the reasons outlined in our response to question one, we do not support the proposed inclusion of New Zealand specific changes in relation to tax advisory and tax planning services.</p>
<p><i>Question 3:</i></p> <p>Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)</p>	<p>We do agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services. However, for the reasons outlined in our responses to questions one and two, we do not support the proposed inclusion of New Zealand specific changes in relation to tax advisory and tax planning services.</p>
<p><i>Question 4:</i></p> <p>Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?</p>	<p>For the reasons outlined in our responses to questions one and two, we do not support the proposed inclusion of New Zealand specific changes in relation to tax advisory and tax planning services.</p>
<p><i>Any other non-assurance services</i></p>	

Question 5:

The NZAuASB has not identified any further aspects of the IESBA’s provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.

As outlined more fully above, we consider that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters. We do not consider that such circumstances exist in relation to the Exposure Draft and do not support the NZAuASB’s New Zealand specific proposals.

Question

BDO response

Audit-related services

Question 6:

Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm’s independence when the services are related to the audit engagement?

We do agree that additional services performed by the audit firm will generally not create a self-review threat to the firm’s independence when the services are related to the audit engagement.

We note that the NZAuASB proposes the inclusion of additional application material in PES 1 on the types of work that typically do not create a self-review threat to independence when such work is related to an audit or review engagement. Although we consider that such information might in some circumstances be useful, we do not consider that this is one of the limited circumstances in which it is necessary for the standards adopted in New Zealand to deviate from international standards. In addition, as outlined in our response to question two, we consider that there are risks associated with including New Zealand specific requirements in professional and ethical standards. For these reasons, we do not support this proposal.

<p><i>Question 7:</i></p> <p>Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)</p>	<p>We do agree that the examples listed would ordinarily not create a self-review threat to independence. However, for the reasons outlined in our response to question six, we do not support the proposed inclusion of this guidance.</p>
<p><i>Question 8:</i></p> <p>Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)</p>	<p>We consider that the requirement to apply the conceptual framework to identify, evaluate and address threats to independence already exists (in proposed paragraph R600 in the general requirements). We do not consider that reiteration is required. In addition, as noted in our responses to questions six and seven, we do not consider that the proposed New Zealand specific paragraph to which this question relates should be included in PES 1.</p>
Question	BDO response
<p><i>Question 9:</i></p> <p>Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.</p>	<p>As outlined more fully above, we consider that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters. We do not consider that such circumstances exist in relation to audit-related services and consequently do not think that any New Zealand specific guidance is required in relation to this matter.</p>
<p><i>Effective Date</i></p>	

Question 10:

For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.

We agree with the proposed transitional provision.