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Submitted electronically

Dear Board Members

Deloitte Submission on Exposure Draft NZAuASB 2021-4 Proposed Amendments to Professional and Ethical Standard 1: Non-Assurance Services ('ED NZAuASB 2021-4')

Thank you for the opportunity to comment on the above exposure draft which sets out the proposed New Zealand specific amendments to the non-assurance services provisions in Professional and Ethical Standard 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) ('PES-1')*.

We support the continued alignment of PES-1 with the equivalent standard issued by the International Ethics Standards Board for Accountants (referred to as the '**IESBA Code**').

However, we do not support the inclusion of the New Zealand amendments to these provisions. In our view, the 'compelling reasons test' has not been met in respect of the proposed non-assurance services NZ amendments. We have included our reasons for this position in Appendix 1, along with our comments in response to the particular questions raised.

Please do not hesitate to contact either of us should you require further clarification on any of the matters discussed.

Yours faithfully

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Appendix 1: Specific Questions for Comment on ED NZAuASB 2017-1

(i) New Zealand specific changes to tax advisory and tax planning services

Question 1

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)

No.

We understand that the NZAuASB only makes changes when there are compelling reasons to depart from the international standards, such as when there is a public interest need to do so, and otherwise will maintain a harmonisation approach.

At this time we do not believe that there are compelling reasons for New Zealand amendments in this area. In particular, we note that the level of non-assurance services is already low¹ and the IESBA Code non-assurance services proposals in this ED (without the NZ amendments) introduce a number of requirements (following extensive international research and debate) which are expected to reduce the level of non-assurance services even further. For example:

- Non-assurance services cannot be provided to public interest entity clients where the service might create a self-review threat, regardless of materiality (ED R600.16),
- A new prohibition has been introduced in relation to certain tax services (ED R604.4), and
- A new process has been introduced requiring auditors to communicate and obtain approval from those charged with governance of a public interest entity before being able to provide non-assurance service (ED 600.19 A1 and subsequent paragraphs),
- among others.

We also note that the New Zealand Accounting Standards Board ('**NZASB**') has a project to enhance disclosures around non-audit fees (Invitation to Comment ('**ITC**') paragraph 25).

These provisions significantly enhance the requirements around auditor independence and aim to provide investors with the information they need to assess both independence in fact and independence in appearance (investor perceptions).

Question 2.

Do you foresee any unintended consequences of this prohibition?

Many New Zealand firms are members of a global network ('network firms') and use globally developed methodology and tools based on international standards when undertaking assurance engagements. Lack of harmonisation means that:

- New Zealand firms will have to introduce workarounds in their systems of quality control to meet these specific requirements, such as changes to tools and templates and to monitoring activities, and
- New Zealand firms will also have to impose the differences on network firms in other jurisdictions where there are multi-national engagements.

These activities add to the cost of an audit in New Zealand and increase the risk of inadvertent non-compliance (particularly for multi-national engagements).

We also note that inconsistency with the IESBA Code may cause issues in relation to decisions by multi-national entities as to who their global service providers for various services should be, particularly if they are looking to change auditor. For example, a multi-national entity may appoint Firm A globally, but the New Zealand subsidiary

¹ Refer ITC paragraph 19 which references the Financial Markets Authority's Audit Quality Monitoring Report for the period 1 July 2019 – 30 June 2020 which indicated the proportion of fees charged (to FMC reporting entities) by audit firms related to non-assurance services was 16%.

may need to be audited by another firm for an additional period because of this extra NZ restriction that the multinational entity was not aware of.

Question 3.

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)

We do not agree with the proposed changes to paragraphs NZ604.5 A1 or NZ604.11 A1 which attempt to distinguish between engagements to assist clients to prepare the tax return and engagements to provide advice as tax returns are prepared, where only the second engagement type is subject to a proposed blanket prohibition for public interest entity audit clients. This distinction is arbitrary given the nature of the engagement and could cause confusion or inconsistent application in practice.

Tax return preparation services have been identified as a separate category of tax services in the Code, which are noted as not usually creating a threat to independence because they:

- *are prepared based on historical information and principally involve analysis and presentation of historical information under existing tax law, including precedents and established practice; and*
- *are subject to whatever review or approval process the tax authority considers is appropriate.*

(paragraph 604.6 A1)

The presence of these factors materially lessens any potential threats to independence, which would be the case regardless of the type of engagement. Further, should these factors not be present then the introductory paragraphs 604.3A1 – A2, would require assessment of any threats to independence.

As a result, we note that there do not appear to be compelling reasons to depart from the IESBA Code in this respect.

Question 4.

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?

No.

(ii) Any other Non-assurance services

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.

We are not aware of any New Zealand specific independence issues that need further provisions.

(iii) 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?

Yes.

Question 7.

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)

We agree that the examples listed would not generally create a self-review threat to independence. We don't think that additional examples are required.

Question 8.

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)

We do not consider that this additional material is necessary. Practitioners are already directed to consider the conceptual framework when identifying and evaluating threats to independence (such as R600.8).

Question 9.

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.

We do not consider that additional material is required in the Code to address perceptions of auditor independence.

We note that the perception that an auditor is not independent often arises when there is a lack of understanding around the nature of the non-assurance services being provided and the process undertaken by the appointing party (the Board of the Company or similar) and the auditor. We note that IESBA Code changes to be adopted in PES-1 introduce a requirement for the auditors of public interest entities to communicate with those charged with governance and obtain their approval before providing any non-assurance services (refer ED 600.19 A1 – 600.27 A1). This will allow those charged with governance to exercise appropriate oversight of independence considerations during the appointment process. In addition, we understand that the NZASB has a project to consider how fees charged by auditors should be disclosed (ITC paragraph 25).

(iv) Effective Date

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 provisions.