

**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)
ADDRESSING CERTAIN NON-ASSURANCE SERVICES PROVISIONS FOR AUDIT
AND ASSURANCE CLIENTS**

This Standard was issued on 25 June 2015 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 23 July 2015.

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 to amend Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* as a result of changes made by the International Ethics Standards Board for Accountants (IESBA) to the IESBA Code addressing certain non-assurance services for audit and assurance clients.

The amendments to Professional and Ethical Standard 1 (Revised) are effective on 15 April 2016, except for the changes to Section 290 which will be effective for audits or reviews of financial statements for periods beginning on or after 15 April 2016.

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Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standard that will be amended, and reference should be made to that compiled standard.

A: INTRODUCTION

This document sets out amendments to *Professional and Ethical Standard 1 (Revised) Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients*. This amending standard has been issued as a result of changes made by the International Ethics Standards Board for Accountants (IESBA) to the IESBA *Code of Ethics for Professional Accountants* addressing certain non-assurance services for audit and assurance clients.

B: Amendments to Professional and Ethical Standard 1 (Revised): Section 290

Amendments to extant Professional and Ethical Standard 1 (Revised) as shown. New text is underlined and deleted text is struck through.

Paragraphs 290.117, 290.133, 290.159 have been shown as 'Deleted by the IESBA' in Professional and Ethical Standard 1 (Revised). In the recent handbook, IESBA has renumbered the paragraphs as a result of these deletions. These paragraphs will also be renumbered accordingly in Professional and Ethical Standard 1 (Revised), which has an impact on the paragraph numbers shown. The paragraph numbers shown reflect the new paragraph numbers.

Management Responsibilities

290.159 ~~Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve~~ controlling, leading and directing an entity, including making ~~significant~~ decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

290.160 Determining ~~Whether~~ an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would ~~generally~~ 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 entity's employees' work for the entity.
- Authorising transactions.;
- Controlling or managing of 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 the preparation and fair presentation of ~~the~~ financial statements in accordance with the applicable financial reporting framework.;
- ~~and~~
- Taking responsibility for designing, implementing, monitoring ~~and or~~ maintaining internal controls.

~~290.161 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an audit or review client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist~~

~~management in discharging its responsibilities is not assuming a management responsibility.~~

290.161 ~~A~~If a firm shall not~~were to~~ assume a management responsibility for an audit or review client,~~;~~The threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for an audit or review client. Subject to compliance with paragraph 290.162, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.162 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit or review client, the firm shall be satisfied that a ~~member of~~client management is responsible for making the significant makes all judgements and decisions that are the ~~proper~~ responsibility of management. This includes ensuring that the client's management:

- 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 the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates~~ing~~the adequacy of the results of the services performed for the client's purpose; and
- ~~and~~Accepts~~ing~~ responsibility for the actions, if any, to be taken arising from the results of the services. ~~This reduces the risk of the firm inadvertently making any significant judgements or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.~~

Administrative Services

290.163 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. 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. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Preparing Accounting Records and Financial Statements

General Provisions

290.164 Management, with the oversight of those charged with governance, 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 within those policies. ~~Originating or changing journal entries, or determining the account classifications of transactions.~~
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders); ~~and~~
- Originating or changing journal entries, or determining the account classifications of transactions.

290.165 Providing an audit or review client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits or reviews the financial statements.

290.166 The audit or review process, however, necessitates dialogue between the firm, management and those charged with governance of the audit or review client, which may involve:

- The application of accounting standards or policies and financial statement disclosure requirements;
- The appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit or review process and do not, generally, create threats to independence so long as the client is responsible for making decisions in the preparation of the accounting records and financial statements.

290.167 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analysing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as New Zealand equivalents to International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit or Review Clients that are Not Public Interest Entities

290.168 The firm may provide services related to the preparation of accounting records and financial statements to an audit or review client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Services that are routine or

mechanical in nature require little to no professional judgement from the assurance practitioner. Some Examples of such services are include:

- Providing Preparing payroll-services 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.;
- Recording a transaction for which the client has already determined the amount to be recorded, even though the transaction involves a significant degree of subjectivity. Posting transactions coded by the client to the general ledger;
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting client-approved entries to the trial balance.; and
- Preparing financial statements based on information in the client-approved trial balance and preparing the related notes based on client-approved records.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit or review team; or
- If such services are performed by a member of the audit or review team, using a partner or senior staff member with appropriate expertise who is not a member of the audit or review team to review the work performed.

Audit or Review Clients that are Public Interest Entities

290.169 ~~Except in emergency situations, a~~ firm shall not provide to an audit or review client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

290.170 Despite paragraph 290.169~~172~~, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, 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 members of the audit or review team 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
- (b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

Taxation Services

Tax Calculations for the Purpose of Preparing Accounting Entries

Audit or Review Clients that are Public Interest Entities

290.1812 ~~Except in emergency situations, i~~In the case of an audit or review client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

C: Amendments to Professional and Ethical Standard 1 (Revised): Section 291

Amendments to extant Professional and Ethical Standard 1 (Revised) as shown. New text is underlined and deleted text is struck through.

Paragraphs 291.112 and 291.127 have been shown as 'Deleted by the IESBA' in Professional and Ethical Standard 1 (Revised). In the recent handbook, IESBA has renumbered the subsequent paragraphs as a result of these deletions. These paragraphs will also be renumbered accordingly in Professional and Ethical Standard 1 (Revised), which has an impact on the paragraph numbers shown. The paragraph numbers shown reflect the new paragraph numbers.

Provision of Non-assurance Services to an Assurance Clients

Management Responsibilities

291.141 ~~Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve~~ controlling, leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

291.142 Determining ~~Whether~~ an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would ~~generally~~ 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 entity's employees' work for the entity.;
- ~~Authorising transactions.;~~
- Control or management of bank accounts or investments.
- ~~Deciding which recommendations of the firm or other third parties to implement.;~~ ~~and~~
- Reporting to those charged with governance on behalf of management.
- ~~Taking responsibility for designing, implementing, monitoring or~~ maintaining internal controls.

291.143 ~~Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an assurance client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.~~

291.143 ~~Assuming a management responsibility for an assurance client may create threats to independence. If a firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, i~~In providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. If the firm assumes a management responsibility as part of any other services provided to the assurance client, it the firm shall ensure that the responsibility is not related to the subject matter and or subject matter information of an the assurance engagement provided by the firm.

291.144 ~~To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement, When providing services that are related to the subject matter or subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that a member of client management is responsible for making the significant all judgements and decisions relating to the subject matter or subject matter information of the assurance engagement that are the proper responsibility of management. This includes ensuring that the client's management:~~

- 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 the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and, evaluatesing the adequacy of the results of the services performed for the client's purpose; and
- ~~and a~~Acceptsing responsibility for the actions, if any, to be taken arising from the results of the services. ~~This reduces the risk of the firm inadvertently making any significant judgements or decisions on behalf of management. This risk is further reduced when the firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.~~

D: EFFECTIVE DATE

The changes are effective on 15 April 2016, except for the changes to Section 290 which will be effective for audits or reviews of financial statements for periods beginning on or after 15 April 2016.