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Dear Board Members

Deloitte Submission on 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')

Thank you for the opportunity to comment on the above exposure draft which sets out the proposed New Zealand specific amendments to the corresponding international standard which will result in amendments to Professional Ethical Standard 1 (Revised).

As noted in our detailed responses to the questions in Appendix 1 to this letter, we agree with certain of the New Zealand Auditing and Assurance Standards Board's (NZAuASB) proposals.

However, we do not support the expansion of the requirements to all other assurance engagements. We have included our reasons for this position in Appendix 1, along with our comments in response to the particular questions raised, including those on the definition of a public interest entity which we consider needs improvement.

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

Yours faithfully

Peter Gulliver
Audit Service Line Leader
for Deloitte Limited

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

1. **Do you agree with the proposals to adopt the revised international requirements dealing with long association?**

   We support the NZAuASB's approach to adopt applicable international auditing standards, including international ethical standards. Our preference is for international standards to be adopted unchanged unless there are compelling reasons for differences in the New Zealand market. We do not believe that there are any compelling reasons for difference in respect of the long association proposals which we discuss further below.

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?

   No. We do not consider that the current New Zealand PIE definition is appropriate and the latest changes to the code highlight this again.

   We agree with the current definition of 'public accountability' and requirements for Tier 1 in XRB A1. However, we consider that the PIE definition should be amended to include only those entities that are required to prepare Tier 1 financial statements and exclude those that opt in to preparing Tier 1 financial statements for the reasons outlined in our response to question 4.

   We consider that applying the revised international requirements to all PIEs (with the definition amended as outlined above) in New Zealand as regards financial statement audits is in the public interest.

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?
   (b) Has any other unintended consequences?

   No. We do not consider that is in the public interest to retain entities that voluntarily report using the Tier 1 reporting requirements within the New Zealand PIE definition.

   The distinction between PIEs and non PIEs is very important to ensure that auditors focus particularly on the independence requirements for PIEs because of the importance that PIEs have to the economy and to the public interest. Adding in entities that do not have public accountability in truth but who have voluntarily decided to prepare full Tier 1 financial statements is an unnecessary distraction from this focus and audit quality in general.

   As is pointed out in the exposure draft, there is a concern regarding auditor supply pressures anyway. While this is less likely to affect the large firms in the main centres, it will very likely affect the smaller firms and offices. Regardless of firm size, the current definition imposes an additional cost on all firms having to identify and monitor another group of entities to ensure that the extra requirements of the code are met. It may also mean that additional support is required from outside the practice office which would normally serve the entity which will potentially add to the cost. This will particularly be the case where specialist expertise is required for a particular industry. It also increases the likelihood of inadvertent non-compliance because these entities do not have the normal public accountability characteristics that make them identifiable as PIEs.

   As noted above in our response to question 2, we consider that the definition should be amended to include those entities that are required to prepare Tier 1 financial statements and exclude those that opt in to preparing Tier 1 financial statements. We agree with the current definition of public accountability and the Tier 1 requirements in XRB A1.

We note that some entities in the process of becoming publically accountable are separately captured as PIEs through the requirements of XRB A1 paragraph 8 which includes entities in the process of issuing instruments to be traded in a public market, and we consider that this remains appropriate.

Some reasons why entities choose to use Tier 1 to prepare their financial statements include where the entity is owned by a foreign company who is not familiar with the RDR regime and asks for full IFRS information to prepare its own financial statements, and where the person preparing the financial statements has chosen to prepare using full IFRS merely because they consider that that is a better set of financial statements. Neither of these reasons on their own, warrant the entity itself being treated as a PIE.

We note that para 290.26 already encourages auditors to consider whether other entities should be treated as PIEs for reasons that are consistent with public accountability as outlined in XRB A1 and we consider that this is appropriate.

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.**

We are not aware of any unintended consequences of these proposals, however we consider it would be appropriate to allow a longer transition period as outlined in our response to question 6.

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?**

We do not agree with the New Zealand proposal to expand the auditor rotation requirements to other assurance engagements and note that in some cases it will create auditor supply pressures. We consider that the current stand down period of two years would be more appropriate.

In particular, we disagree with the assumption made in paragraph 34 of the paper that in most circumstances where assurance is provided over prospective or non-financial information, the client is already an audit or review client. There are a number of specialised other assurance engagement types that are not always performed by the statutory auditor or reviewer. For example, we perform assurance engagements in respect of anti-money laundering requirements, sustainability reporting, as independent verifiers in respect of the Climate Change (Unique Emissions Factors) Regulations 2009, and some control assurance engagements where we are not the statutory auditor of the entity.

Where these engagements involve specialist knowledge, or involve professionals that are subject to additional registration requirements, the introduction of longer cooling off periods will reduce the pool of specialists available to complete the work. It may also disadvantage the accounting profession where accountants compete with non-accountants in the delivery of these assurance engagements.

For example, the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the ‘AML/CFT Act’) section 59 requires a reporting entity to have its risk assessment and AML/CFT programme audited at least every 2 years by an independent person. This person is not required to be a chartered accountant nor do they need to be qualified to undertake financial audits (section 59(4)).

Should you decide to progress with these New Zealand amendments, it is also not clear how to apply the requirements when engagements are recurring but not over consecutive periods. Again, using the AML/CFT Act as an example, current practice is to audit the risk assessment and work programme every second year, so while this is recurring (and typically performed for banks and financial institutions which are public interest entities), the opinion only covers every second year of operation. It is not clear how the rotation and cooling off requirements apply to these engagements given the assurance engagement periods are not consecutive.

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 beginning prior to 15 December 2023. The NZAuASB requests feedback on the impact of this transitional provision in the New Zealand context.**

   Given New Zealand's small market and large number of PIEs, we consider that it is appropriate for an alternative cooling off period to be permitted over the transitional period to 15 December 2023 given the specific allowance in the international standard.

   It is already difficult to manage conflicts of interest, needs for industry expertise, and client demands for locally based or experienced partners when approaching a rotation period. The new cooling off requirements will add an additional level of complexity to rotation, particularly for smaller offices or firms, and a longer transition period will enable better staggering of partner and EQCR roles so as to not impact on audit quality.

   While we disagree with the expansion of the cooling off period requirements to other assurance engagements, if you proceed with this proposal, we suggest that the existing shorter cooling off period is permitted prior to 15 December 2023 to enable time for additional specialists to be recruited or trained, where possible.

7. **Do you consider any further compelling reason amendments are needed? If so, what amendments should be made any why?**

   No.

8. **Do you have any other comments on ED NZAuASB 2017-1?**

   No.