



Chief Executive
External Reporting Board
PO Box 11250
Wellington 6142

By email: submissions@xrb.govt.nz

2 November 2018

NZAuASB ED 2018-1 Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) New Zealand

Dear Sir

We appreciate and thank you for the opportunity to comment on the NZAuASB's Exposure Draft ED 2018-1 (ED). We understand our submission is subject to the Official Information Act 1982, and have no objection to part or all of our submission being published on the XRB website (xrb.govt.co.nz).

Questions for respondents

In response to the specific questions that the Board raised in the ED:

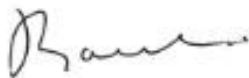
- We agree with the proposal to follow the requirements in R900.50 to R900.55 of the International Code in relation to breaches of independence relating to other assurance engagements. In our view, clients would expect independence breaches in other assurance engagements to be treated as seriously as independence breaches in audit or review engagements and the International Code's principles based approach effectively achieves this.
- We agree with the requirements in R900.51 and R900.52 of the International Code to use professional judgement when communicating breaches of independence for other assurance engagements is appropriate based on our experience with the varying types of responsible parties and intended users for the other assurance engagements performed by our firm.
- We agree with the requirements in R360.30 of the International Code and in the ED for communicating NOCLAR for other assurance engagements to the appropriate level of management, and those charged with governance where it is appropriate to do so. In our view, those charged with governance would expect to have these matters communicated to them, if it is appropriate to do so.
- We agree the International Code's application of the broader threats and safeguards approach is sufficient to achieve independence for other assurance engagements. In our view, this is more appropriate than the extant rules-based approach which only covered some independence threats for certain types of non-audit services.

- We agree with aligning the proposed effective date for the ED with the effective date of the International Code. However, we recommend adding a reminder into the paragraph on the Effective date about the changes to the provisions addressing the “long association of personnel with an assurance client” that take effect for audits, review engagements and other assurance engagements for periods beginning on or after December 15, 2018 and as of the same date for other assurance engagements that do not cover a period.
- We do not think any of the new requirements which align with the International Code requirements pose specific challenges or are inappropriate in the New Zealand context.
- Our detailed comments on the additional NZ paragraphs and the differences to the International Code are set in the Appendix to this letter.
- We are not aware of any weaknesses or gaps in the ED that need to be addressed in the NZ context.
- We are not aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the ED.
- We do not think there are any significant issues arising from the proposed Code that the NZAuASB should raise with the IESBA when the International Code is next updated. We do have two minor suggestions for drafting changes to the International Code which we have included in the Appendix.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at tony.gault@pwc.com

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Gault'.

Tony Gault
NZ Partner Responsible for Independence

Appendix

Detailed comments - Additional NZ paragraphs and differences to the International Code

Paragraph	Comment/observation
NZ R310.9.1 NZ R 310.9.2	<p>Paragraph 54 of the Invitation to Comment states that paragraphs R310.9 and 310.9 A4 of the International Code have been deleted from the ED. However, these paragraphs are still included in the ED, so there is some inconsistency here.</p> <p>While we acknowledge the stricter position is in extant PES 1, our view is the assurance practitioner should be able to apply professional judgement on the nature and significance of the conflict of interest and the necessary disclosures and consent and R310.9 is a sensible way to address this.</p> <p>NZ R310.9.1 and NZ R310.9.2 does not specifically require consent to be in writing which could be open to interpretation on how consent is obtained if the intent is that it is always in writing.</p>
NZ R310.12	<p>The requirement to <i>end or decline the relevant assurance engagement</i> where adequate disclosure by reason of constraints of confidentiality cannot be achieved, may not be practicable for a specific territory in large network firms providing assurance and non-audit services where the services may be agreed on a global basis. In our view, the wording in the International Code for R310.9 which requires the Assurance Practitioner to exercise professional judgement in whether or not to accept an assurance engagement, and R310.12 and R310.12 A1 which prescribes appropriate safeguards, is a sensible way of addressing this situation, even in small countries like New Zealand.</p>
Definitions	<p>The definition of “Firm” on page 186 should to be amended to refer to “assurance practitioners” rather than “professional accountants”.</p> <p>The reference to “Professional Accountants in Public Practice” under the definition of “Non Compliance with Laws and Regulations” on page 188 may need to be deleted.</p>

Minor suggestions for the next update of the International Code which are also relevant for the ED

Paragraph	Comment/observation
410.7	<p>Paragraphs 410.3 to R410.6 refer to an independence threat from the relative size of fees and the text of these paragraphs refers to <i>total fees</i>.</p> <p>Paragraph 410.7 refers to the independence threats from overdue fees. We suggest this paragraph could be clarified to state whether it is only referring to audit/review fees or whether it refers to total fees, to minimise the risk of any misunderstanding. This comment also applies to paragraph 905.4 A1 for assurance engagements other than audits and reviews.</p>