



20 July 2020

File Ref: AU/APS/2-0002  
AU/APS/6-0012

April Mackenzie  
Chief Executive  
External Reporting Board  
PO Box 11-250  
Manners Street Central  
WELLINGTON 6142

Dear April

**EXPOSURE DRAFT NZAuASB 2020-1 - PROPOSED AMENDMENTS TO PES 1: PART 2, ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM**

Thank you for providing the opportunity to comment on *Exposure Draft NZAuASB 2020-1 - Proposed Amendments to PES 1: Part 2, Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm* (the Exposure Draft).

**Our understanding of the purpose of the Exposure Draft**

We understand the purpose of the proposed amendment to PES 1 is to remind assurance practitioners, who have a relationship with a firm, of their obligation to comply with all of the requirements of the Code of Ethics.

If our understanding is correct, we would conclude that Part 2 of the Code of Ethics will not apply to assurance practitioners who do not have a relationship with a firm.

**Some observations**

***“Firm” versus “employing organisation”***

We note that “Firm” is defined in PES 1 as:

- (a) *“A sole practitioner, partnership or corporation undertaking assurance engagements;*
- (b) *An entity that controls such parties, through ownership, management or other means; and*
- (c) *An entity controlled by such parties, through ownership, management or other means.”*

We note, in accordance with paragraph 200.3, that an assurance practitioner who performs professional activities pursuant to their relationship with a firm might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or a volunteer of an **employing organisation**.

We would observe that, for the purposes of the Exposure Draft, the firm may not be the employing organisation but that an individual may be an assurance practitioner who has a relationship with a firm. This situation would apply, for example, when an assurance practitioner is engaged to carry out assurance services for a firm as a contractor to the firm. It would appear, in accordance with

paragraph 200.1, that an assurance practitioner's relationship with the firm is the "condition" that triggers the application of Part 2 of the Code.

We are not sure if the reference to **employing organisation** in paragraph 200.3, and many other paragraphs in the Exposure Draft, is deliberate. If this reference is deliberate it creates confusion as to whether the Exposure Draft is concerned with:

- an assurance practitioner in their relationship with a firm; or
- an assurance practitioner in their relationship to their employing organisation; or
- both.

#### *"Professional activity" versus "assurance services"*

We note that "professional activity" is defined as:

*"An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, tax, management consulting, and financial management."*

Assurance services *"comprise of any assurance engagements performed by an assurance practitioner"*.

It is our understanding that Part 2 is intended to apply to "professional activities, other than assurance services".

#### *Consequential amendment – paragraph 300.5 A1*

We noted two matters that may need to be reconsidered under paragraph 300.5 A1. That paragraph states:

Examples of situations in which the provisions in Part 2 apply to an assurance practitioner include:

- Preparing or presenting financial information for the assurance practitioner's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.

In our view the reference to the assurance practitioner's "client" is problematic.

The reference to "client" presumably refers to "assurance client", "audit client" or "review client". PES 1 already contain provisions that effectively prohibit an assurance practitioner from preparing or presenting financial information for a "client". It seems inappropriate to suggest this is a possibility.

- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

The cited example of pressure from an engagement partner to report chargeable hours inaccurately for a client engagement seems to miss the mark to some extent. Although it is undesirable behaviour, we're not necessarily convinced this is always a breach of PES 1. It depends on where the chargeable hours were re-allocated. If they were charged to a different client then that could be a problem. If the hours were charged to on-the-job training or some administration code then that may fall within firm policy.

In addition, this example is not included in Section 270. This raises an internal inconsistency within PES 1.

If you have any questions about our submission please contact Roy Glass at [roy.glass@oag.parliament.nz](mailto:roy.glass@oag.parliament.nz) or myself at [todd.beardsworth@oag.parliament.nz](mailto:todd.beardsworth@oag.parliament.nz).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'T. Beardsworth', with a long horizontal flourish extending to the right.

Todd Beardsworth  
Assistant Auditor-General  
Audit Quality Group