



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD



Strengthening Auditor Independence – proposed changes to the non-assurance services provisions of the Code of Ethics

Robert Buchanan – NZAuASB Chair

Sharon Walker – Senior Project
Manager, XRB

24 August 2021





Housekeeping

- Keep microphones muted.
- Turn video off.
- Use the chat function if you have a question. Time permitting, we will answer questions at the end of the presentation.
- Webinar will be recorded and available on the XRB website.



Agenda

- Welcome
- Key changes
- Approach for PIEs/Non-PIEs
- Deep dive into specific provisions, including NZ proposed paragraphs
- Effective date
- Submissions close 31 October



Key Changes

- Introduction of new **self-review threat prohibition** for PIE audit clients
 - Materiality not a factor in determining whether a NAS might create a self-review threat
- New requirements for **communications with those charged with governance** for PIE audit clients
- Clarifications to assist in the application of the conceptual framework to identify, evaluate and address threats to independence created by providing a NAS to an audit client.
- In NZ proposed new **prohibition on the provision of tax advisory and tax planning services** for PIE audit clients.



What is a PIE?

Any entity that meets the Tier 1 criteria in accordance with XRB A1* and is not eligible to report in accordance with the accounting requirements of another tier.

* XRB A1 *Application of the Accounting Standards Framework*



Approach for Non-PIE Audit Clients

- Apply the conceptual framework
- Strengthened provisions to:
 - Introduce new examples of safeguards for addressing threats
 - Emphasize that in certain situations a safeguard might not be available or capable of addressing threats



Approach for PIE Audit Clients

- Apply the conceptual framework
- Prohibition on provision of NAS to an audit client that is a PIE if a self-review threat might be created (new)
- Communicate with TCWG (new)
 - Inform
 - Provide
 - Concur

Self-review Threat Prohibition

- For PIE audit clients, a NAS that might create a self-review threat is prohibited because the threat:
 - Cannot be eliminated
 - Cannot be reduced to an acceptable level by applying safeguards.
- Proposed NZ guidance explains that additional work performed by the firm will not generally create a self-review threat when such work is related to the audit and provides examples.



HEIGHTENED EXPECTATIONS
ON A FIRM'S INDEPENDENCE
FOR PIE AUDIT CLIENTS



Firm Communication with TCWG – PIE Audit Clients

- Unless otherwise addressed by a pre-determined process, the firm is required to:
 - Inform TCWG that the firm has determined that the provision of the NAS is not prohibited and will not create a threat to independence, or that the threat is at an acceptable level.
 - Provide TCWG with information to enable them to make an informed assessment about the impact of NAS on the firm's independence.
 - Obtain concurrence from TCWG before providing a NAS to:
 - an audit client that is a PIE
 - any entity that controls that PIE (i.e., parent)
 - any entity that is controlled directly or indirectly by that PIE.



NAS Prohibitions Subsections 601-610

Stricter NAS Prohibitions

All audit clients

- Recruiting Services
- When the effectiveness of the service depends on a particular accounting treatment or presentation in the financial statements
 - Tax advisory and tax planning services
 - Corporate finance services
- Certain tax services

PIE audit clients

- Accounting and bookkeeping services
- Valuation services
- Acting as an expert witness
- Legal advice
- Acting in an advocacy role

Proposed NZ Prohibition

- Tax advisory and tax planning services (for PIE audit clients)



Recruiting Services (609)

- R400.13 precludes a firm or network firm from assuming a management responsibility
- All audit clients
 - Prohibition on acting as negotiator on client's behalf
 - For director/officer of the entity or member of senior management, prohibition on:
 - Searching for or seeking out candidates
 - Undertaking reference checks of prospective candidates
 - *Recommending the person to be appointed (new)*
 - *Advising on the terms of employment, remuneration or related benefits of a particular candidate (new)*
 -



Tax Services (604)

- Prohibited
 - Tax services or transaction relating to marketing, planning, or opining in favour of a tax treatment that was initially recommended, by the firm or network firm, and a significant purpose of the tax treatment is tax avoidance (all clients)
 - Tax advisory and tax planning services when the effectiveness of the advice is dependent on a particular accounting treatment (all clients)
 - Tax calculations for the purpose of preparing accounting entries (for PIEs only)
 - Acting as an advocate before a tribunal or court in the resolution of a tax matter (for PIEs only)
 - **[NZ]Tax advisory and tax planning services (for PIEs only)(new)**
- Prohibited for PIEs when a Self-Review Threat might be created
 - Tax services involving valuations
 - Assistance in the resolution of tax disputes
- Permitted
 - Tax return preparation
- In NZ, advising on tax return treatment of past transactions = tax advisory and tax planning service



Corporate Finance Services (610)

- **Prohibited (for all audit clients)**
 - Corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.
 - Providing advice in relation to corporate finance services to an audit client where:
 - The effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements; and
 - The audit team has doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework
- **Audit clients that are PIEs**
 - Prohibited if the provision of the corporate finance service might create a self-review threat. (new)



Accounting and Bookkeeping (601)

- For audit clients that are not PIEs (no change from extant)
 - Prohibited unless:
 - a. the services are of a routine and mechanical nature; and
 - b. the firm addresses any threats that are not at an acceptable level
- For PIE audit clients
 - Prohibited
 - Exception in relation to preparation of statutory financial statements for a related entity when certain circumstances exist



Valuation Services (603)

- For audit clients that are not PIEs (no change from extant)
 - Prohibited if:
 - a. the valuation involves a *significant degree of subjectivity*; and
 - b. the valuation will have a material effect on the financial statements.
- For PIE audit clients
 - Prohibited if the valuation service might create a self-review threat

Certain valuations **do not** involve a significant degree of variation. In such circumstances **the results of a valuation performed by two or more parties are not likely to be materially different**



Litigation Support Services (607)

For PIE audit clients

- Litigation support: Prohibited if provision of the service might create a self-review threat (new)
- Acting as an expert witness: Prohibited unless specific circumstances apply (new)

Exceptions to acting as an expert witness include:

- Appointed by a tribunal or court
- Engaged to advise in relation to a class action if:
 - The firm's audit clients constitute <20% of the members of the class or group
 - No audit client is designated to lead the class or group
 - No audit client is authorised by the class or group to determine the nature, scope or terms of services



Legal Services

- Legal advice: Prohibited if provision of the service might create a self-review threat (for PIE audit clients)
- Acting as general counsel: Prohibited (for all audit clients) (no change)
- Acting in an advocacy role in resolving a dispute or litigation before a tribunal or court:
 - For non-PIE audit clients: prohibited if amounts involved are material (no change)
 - For PIE audit clients: prohibited



Other Assurance Engagements Other than Audits and Reviews

- Consequential amendments to Part 4B, section 950
- Preserving the existing alignment to Part 4A, section 600
- New application material for assurance clients that are PIEs
- Many of the specific NAS provisions in section 600 are not extended to other assurance engagements. Primary focus of the NAS project was in the context of providing NAS to audit clients.



Effective Date

- Section 600 and conforming amendments to Part 4A effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.
- Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after 15 December 2022; otherwise, effective as of 15 December 2022.
- Early adoption permitted.
- ***NZ Transitional Provision***
 - For non-assurance services engagements a firm or network firm has entered into with an audit client, or for non-assurance services engagements a firm has entered into with an assurance client, **before 15 December 2022 and for which work has already commenced**, the firm or network firm may continue such engagements under the extant provisions of PES 1 for up to 12 months.



More information and provide feedback

- [XRB website](#)
- Panel discussion 16 September, Auckland
- Feedback forum (virtual) 19 October
- Submissions due 31 October 2021



Stavros Thomadakis, Chair IESBA

“Let me note here that the new standard is efficient, stringent and objective. It is efficient because with one principles-based prohibition it in fact prevents the provision of a whole set of NAS to audit clients. It is stringent because it eliminates not simply all NAS that give rise to a SRT but all NAS that might give rise to a SRT, i.e not just the fact but even the mere possibility of a SRT occurring. It is objective because, as specified in the revision, the prohibition does not depend on a materiality threshold. So it is not a matter of judgment whether the prohibition will bite or not. It will bite for PIEs.”



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Disclaimer

This presentation provides personal views of the presenter and does not necessarily represent the views of the XRB or other XRB staff. Its contents are for general information only and do not constitute professional advice.

The XRB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation.

The contents of this presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of XRB staff.

