

25 May 2017

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Dear Ken,

IESBA Exposure Draft – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2

Thank you for the opportunity to comment on this Exposure Draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the Exposure Draft in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners. In this respect, the NZAuASB is in a unique position as it adopts both IESBA and IAASB standards for application in New Zealand. However, the NZAuASB's standard setting responsibility applies only to professional accountants in their role as assurance practitioners, and does not extend to professional accountants in business.

Overall comments

The NZAuASB is very supportive of the project to improve the structure of the Code, and commends the IESBA on the progress made to date. The NZAuASB considers that the primary purpose of the Code is to guide professional accountants to work through ethical conflicts as they emerge. The NZAuASB supports the enhancements to the existing framework through Phase 1 of the Structure Project, in particular their emphasis on the importance of the conceptual framework and their strong focus on compliance with the fundamental principles.

The clarity drafting conventions have resulted in simpler and shorter sentences, and increased use of the active voice. Clarity of the Code is improved by the use of additional bullet points, and separating out long paragraphs into shorter and separate requirements or application material. However, as noted in the comments that follow, the NZAuASB believes that there is room for continued improvement.

Linkage to Conceptual Framework and Fundamental Principles

Each section of the restructured Code includes a statement, "The professional accountant is required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats". As previously submitted by the NZAuASB, we continue to recommend that it would be even more helpful to link each sub-section to a fundamental principle. Such linkage will place an even greater emphasis on the overarching principle.

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Use of the conceptual framework statement may bring the conceptual framework more to the front of mind, but linking each section to a fundamental principle makes it easier for a professional accountant to apply the conceptual framework, and to identify and evaluate the relevant threats.

Meaning of “Audit Engagement”

The NZAuASB continues to be concerned about the use of the collective term “audit” to include “review”. In New Zealand, as in most other jurisdictions, different standards are issued for audit engagements, compared to review engagements, which create a clear distinction between these two types of engagements. Indeed, this is also the case for standards issued by the International Auditing and Assurance Standards Board.

Care needs to be taken when drafting requirements and guidance not to use audit centric wording when referring to both audit and review engagements. For example, in Part 4A of the Code, paragraph 600.5 A1 of Safeguards ED-2 discusses the concept of materiality and specifically references ISA 320, *Materiality in Planning and Performing an Audit*. However, there is no corresponding reference to ISRE 2400, *Engagements to Review Historical Financial Information*, which is equally relevant.

The NZAuASB’s preference is to refer separately to audit and review engagements, rather than using the term “audit” or “audit engagement” as shorthand. However, given the IESBA’s current approach of using the collective term “audit”, we recommend that the IESBA review the Code to ensure that requirements and guidance apply equally to both audit and review engagements, particularly in Part 4A of the restructured Code.

Cross-referencing of “required to” statements

Wherever the Code uses the wording “...required to”, it would be helpful if a footnote referencing the original requirement (i.e., the “shall” statement) is included. Such referencing would assist the professional accountant when applying the Code, as professional accountants are unlikely to read the Code from cover to cover. Rather, in practice, a specific section or paragraph will be referred to that most closely deals with the ethical dilemma the professional accountant is facing. Such referencing would also assist the IESBA to ensure that wording is consistent with the original requirement. In addition, such cross-referencing will be helpful when the IESBA develops its electronic Code.

For example, paragraph 240.4 A3 states, “As part of evaluating whether a threat created by financial interests is at an acceptable level, and, when necessary, in determining whether those threats are addressed, a professional accountant is required to evaluate the nature of the financial interest. ...” It is not clear from the text of paragraph 240.4 A3 where in the Code the requirement to evaluate the nature of the financial interest sits.

Further examples include:

- Paragraph 120.12 A1¹, “Professional accountants in public practice are required to be independent when performing audits, reviews, or other assurances engagements. ...”
- Paragraph 120.12 A2², ... “Professional accountants in public practice are required to comply with these standards in order to be independent, when conducting such engagements. ...”
- Paragraph 300.1³, “... Therefore, professional accountants in public practice are required to be alert for such facts and circumstances.”

¹ Compilation of Proposed Restructured Code as of January 2017, page 20

² Compilation of Proposed Restructured Code as of January 2017, page 21

³ Compilation of Proposed Restructured Code as of January 2017, page 52

Paragraph numbering

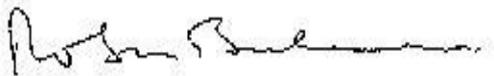
The NZAuASB is supportive of retaining the application material in close proximity to the requirement to which it relates, but notes that the paragraph numbering system is cumbersome and could be considered confusing. A simpler approach to paragraph numbering could be to number all paragraphs sequentially, while using the “R” designation to identify requirements.

The complexity of the numbering system will be further exacerbated when national standard setters need to add material. For example, in New Zealand we might add requirements and/or application material to the Code to reflect the New Zealand legal and regulatory environment. When this is the case, an example of such numbering could be [NZ] 114.2 A1.1. Also, there are several application paragraphs that do not link to a requirement and several “R” paragraphs that do not contain requirement language. Further, the distinction between what comprises essential explanatory or introductory material versus application material seems vague. For example, section 910 deals with financial interests. Paragraphs 910.4 A1, 910.5 A1 and 910.6 A1 come under the heading “requirements and application material”, but could equally comprise part of the introductory material of the section as there is no specific requirement to which these application paragraphs relate.

In formulating this response, the NZAuASB sought input from New Zealand constituents.

Should you have any queries concerning our submission please contact either myself at the email address provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



Robert Buchanan

Chairman

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Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Exposure Draft – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2

I Schedule of Responses to the IESBA's Specific Questions

Structure of the Code Phase 2

1. Do you believe that the proposals in this ED have resulted in any unintended changes in meaning of:

- The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?
- The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?
- The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?
- The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?
- The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?

Response:

Where suggested changes are presented, added text is underlined, deleted text is struck through.

Sections 200-270 Part C Phase 1 and Section 260

Ethical provisions pertaining to professional accountants in business are outside the responsibility of the NZAuASB as delegated by the XRB. Accordingly, the NZAuASB has no comment on Sections 200-270 Part C Phase 1 nor Section 260.

NOCLAR Section 360

Paragraph R360.5 states, “the professional accountant shall apply this section regardless of the nature of the client, including whether or not it is a public interest entity.” As drafted, this paragraph can be read that this section always applies. Rather, in the close-off NOCLAR document, it is clear that when the professional accountant encounters or is made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client, the NOCLAR provisions apply. In addition, Section 360 will not apply in its entirety because the section covers two frameworks: one for audits (and reviews); and one for professional services other than audits (and reviews) of financial statements.

The following wording may help clarify the application of the requirement:

R360.5 The professional accountant shall apply this section ~~regardless of the nature of the client, including whether or not it is a public interest entity.~~ if the accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance.

- Subsection XX applies if the accountant is engaged to perform an audit of financial statements.
- Subsection XY applies if the accountant is engaged to perform professional services other than audits of financial statements.

Paragraphs R360.26 and R360.37

The NZAuASB is concerned that the “R” label is being used in many instances to identify exceptions to a requirement. Exceptions are generally expected to be rare and should not be over-emphasised. Rather than being labelled as “R” paragraphs, exceptions could be drafted as application to the requirement. Paragraphs R360.26 and R360.37 are examples of exceptions to the requirement.

Paragraphs R360.26 and R360.37 permit the professional accountant to make a disclosure to an appropriate authority when the professional accountant has determined that this is an appropriate course of action, without being in breach of the duty of confidentiality. The following suggested drafting separates the application material from the requirement and also makes use of the clarity drafting conventions.

~~R360.26 (and R360.37) If the professional accountant determines that disclosure to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of confidentiality under sub-section 114 of the Code. When making such disclosure, the accountant shall~~

- ~~•~~ act in good faith and exercise caution when making statements and assertions; and
- ~~•~~ ~~The accountant shall also~~ consider whether it is appropriate to inform the client of the accountant’s intentions before disclosing the matter.

Application paragraph (either before or after R360.26 and R360.37) If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of confidentiality under sub-section 114 of the Code.

Long Association Sections 540 and 940

Paragraph 540.2 This paragraph is similar to extant paragraph 290.148 which also acknowledges that familiarity and self-interest threats may increase in significance when an individual is involved in an audit engagement over a long period of time. The risk of the threat increasing in significance is particularly relevant, as the professional accountant will need to consider the cumulative effect of the risk each year. Removal of this concept may have unintended consequences. We suggest amending paragraph 540.2 as follows:

When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created and might increase in significance when an individual is involved in an audit engagement over a long period of time.

Paragraph R540.6 This paragraph starts “subject to paragraphs R540.7 to R540.9”. This construct adds inappropriate emphasis to exceptions that are expected to occur only in very limited circumstances. In the extant closing document, the rule is established and then much later on the exception is listed. Reading the exception first seems to place unnecessary attention on the exception. In addition, paragraphs R540.7 and R540.9 are exceptions to the requirement and are not themselves requirements. Labelling these paragraphs with “R” may over-emphasise what are expected to be rare exceptions. The NZAuASB recommends that “subject to paragraphs R540.7 to R540.9” at the beginning of paragraph R540.6 be deleted. In addition, the NZAuASB recommends that paragraphs R540.7 and R540.9 be renumbered as application paragraphs. Our suggested changes to R540.6 are as follows:

~~Subject to paragraphs R540.7 to R540.9, in~~ respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):...

Section 800 Restricted Use Reports

Restriction on Use and Distribution

Section 800 refers to the restriction on use *and* distribution. Throughout the International Standards on Auditing, the term used is “restriction on distribution or use”. In some cases, it may not be possible for the professional accountant or the firm to restrict the distribution of the report; for example, a regulator may require certain entities to place the special purpose financial statements on public record. The NZAuASB, therefore, recommends changing “and” to “or” throughout this section. Such a change would also eliminate the inconsistency in terminology between the IAASB and the IESBA standards.

Paragraphs R800.3- 800.3 A2 are difficult to read and understand. Paragraph R800.3 starts by stating that there might be an exception, and requiring certain circumstances to exist if that exception is to be applied. Then, the sentence, “[t]he independence requirements that apply in respect of such an engagement shall only be eligible for the modifications to Part 4A (excluding this section) that are permitted by this section if:...” is overly complex. We suggest the following revisions to paragraphs R800.3-800.3 A2:

R800.3 A firm might issue When a firm issues [or intends to issue] a report on an audit of special purpose financial statements which includes a restriction on use and distribution. distribution or use, The independence requirements that apply in respect of such an engagement shall only be eligible for modifications to the requirements of Part 4A (excluding this section) that are permitted by this section if. Such modifications shall apply only if the intended users of the report

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; Understand the purpose and limitations of the report; and
- (b) The intended users of the report understand the purpose and limitations of the report and eExplicitly agree to the application of the modified independence requirements.

Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

[Paragraph 800.3 A1 would remain unchanged.]

[new paragraph following paragraph 800.3 A1] The firm shall communicate with the intended users of the report regarding the modified independence requirements to be applied. Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

800.3 A2 Such communication may be made to intended users, for example, in an engagement letter. Where the intended users are a class of users, fFor example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm may make the users aware of the modified independence requirements by, for example, making the firm’s engagement letter available to the members of the group. -of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

Paragraph R800.9(b) – requires the firm to identify, evaluate and address any threats to independence that might be created by interests and relationships. Use of “might” suggests that the firm is not required to

identify, evaluate and address threats that are created, rather only those for which there is a possibility. The NZAuASB questions whether this is intended. To remove the ambiguity, the following wording is suggested:

The firm shall identify, evaluate and address any threats to independence ~~that might be created by~~ interests and relationships as set out in Sections...

Paragraph R800.9(c) The firm is required to apply the conceptual framework to identify, evaluate and address threats to independence in relation to an audit engagement.⁴ In contrast, paragraph R800.9(c) requires the firm to evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement. It is unclear from the requirement whether the firm is also required to identify such threats, or whether this requirement relates to threats that the engagement team becomes aware of. If the latter is intended, using the words “of which the engagement team is aware” may be clearer than “has reason to believe”. Alternatively, the following wording may be clearer if the intention is that the firm is also required to identify the threats:

The firm shall identify, evaluate and address any threats that the engagement team has reason to believe are or might be created by...

Part 4B Independence for other assurance engagements

Paragraph 900.1 provides examples of assurance engagements other than audit and review engagements. An example of such an engagement is an audit of specific elements, accounts or items of a financial statement. This seems counter-intuitive and, without further clarification, is very confusing. If an auditor is performing an audit of specific elements, accounts or items of a financial statement in accordance with International Standards on Auditing, it is not clear why Part 4B, *Independence – Other Assurance Engagements*, rather than Part 4A, *Independence – Independence for Audits and Reviews*, should apply.

Paragraphs 900.7 – 900.12 Several paragraphs in the introduction to Section 900 are devoted to describing an assurance engagement. The NZAuASB recognises that this material is in the extant Code; however, with the clarity objectives in mind, we question whether this introductory material is necessary. There is no equivalent description of audit and review engagements in Part 4A.

Professional Accountant vs Firm In parts 4A and 4B of the restructured Code, the term “professional accountant” refers to professional accountants in public practice and their firms. The requirements in these Parts, however, are generally stated in terms of the firm. This is the case in each of the paragraphs identified. When this is the case, it is not clear whether the requirement is intended to apply to the professional accountant or only to the firm. As noted, the term ““professional accountant” refers to “professional accountants in public practice and their firms.” Use of the term “professional accountant” in this context makes it very clear that the requirement is on both the professional accountant and the firm. Accordingly, the NZAuASB recommends that the IESBA reconsider, for each of the requirements in Part 4B when the term “firm” is used, whether the intention is that the requirement applies only to the firm.

The following comments identify paragraphs that place the requirement on the firm:

- *Paragraph R900.15* This paragraph requires the firm performing an assurance engagement to be independent. The extant Code requires the members of assurance teams and firms to be independent of the assurance client. As drafted, the requirement appears to apply only to the firm.
- *Paragraph R900.40* requires the firm to document compliance with Part 4B. It is unclear how the firm would document compliance.

⁴ Part 4A, *Independence for Audits and Reviews*, paragraph R400.12 of the Compilation of Proposed Restructured Code

- *Paragraph R910.11* requires the firm to apply the conceptual framework if an assurance team member knows about a financial interest. There appears to be a disconnect between the requirement on the firm, based on knowledge of an individual.
- *Paragraph R921.2* refers to a family or personal relationship between the “firm” and client personnel.

2. Do you believe that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum?

Response:

The NZAuASB agrees that the proposals are consistent with the key elements of the restructuring as described in Section III of the Explanatory Memorandum. However, as noted in the overall comments and in the comments on specific paragraphs, there is room for improvement.

Conforming Amendments Arising from the Safeguards Project

3. Respondents are asked for any comments on the conforming amendments arising from the Safeguards project. Comments on those conforming amendments are requested by April 25, 2017 as part of a response to Safeguards ED-2.

Response:

Please refer to the NZAuASB’s submission on Safeguards ED-2.

Effective Date

4. Do you agree with the proposed effective dates for the restructured Code? If not, please explain why not.

Response:

The NZAuASB supports the proposed effective dates for the restructured Code.

II Editorial Suggestions

Added text is underlined, deleted text is struck through.

General

Each section contains an applicability paragraph stating that "... section [xxx] sets out specific requirements [and/or application material, as applicable] relevant to applying the conceptual framework..." The use of "specific" as well as "relevant" in these sentences is unnecessary. A simpler construct would be "...section [xxx] sets out ~~specific~~ requirements [and/or application material, as applicable] relevant to [or specific to] applying the conceptual framework. ..."

(From the Compilation of Proposed Restructured Code⁵) Paragraph R521.8 (b) It appears that the paragraph is split incorrectly. Sub-paragraph (b) should follow the first "or" in sub-paragraph (a) and read as follows:

An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) A director or officer of the audit client; ~~or an employee in a position to exert significant influence over the preparation of the client's accounting records;~~ or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records; or the financial statements on which the firm will express an opinion.

Paragraph 240.4 A3 may not accurately reflect the wording of the requirement in R120.7, which requires the professional accountant to evaluate whether a threat to compliance with the fundamental principles is at an acceptable level. Paragraph 240.4 A3 states, "a professional accountant is required to evaluate the nature of the financial interest." Close-off document: Part C (Phase 1) states, "...a professional accountant in business shall evaluate the nature of the interest..." The wording of paragraph 240.4 A3 is consistent with the Close-off document, but it is not clear in the restructured Code where the source of the original requirement is, nor whether the wording of the "required to" statement is consistent with the original requirement. Further, in the next sentence, present tense is used, stating "this includes evaluating the significance of the financial interest". It is not clear whether the present tense statement is also a requirement on the professional accountant. A requirement to evaluate the nature and significance of the financial interest may be more appropriate.

Paragraph 360.4 A1 – the words "by the following parties" have been inserted. These words are not necessary and for clarity could be deleted.

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by ~~the following parties:~~

- (a) A client;
- (b) Those charged with governance of a client;
- (c) Management of a client; or
- (d) Other individuals working for or under the direction of a client.

⁵ Compilation of Proposed Restructured Code as of January 2017, paragraph R521.8, Page 112

Paragraph 360.5 A1 – contains the words “non-compliance with laws and regulations.” These words are not needed, as use of non-compliance with laws and regulations is defined as “non-compliance” in 360.4 A1.

A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to it.

Paragraph 360.8 A1 The terms “client” and “entity” are used inconsistently. Sub-paragraph (b) refers to the entity, but sub-paragraph (d) refers to the client. These terms should not be used interchangeably, but rather one term should be identified and used consistently throughout the Code. “Entity” is also used in paragraph R360.9. Also, in the heading above paragraph 360.8 A1 “Responsibilities of the Client’s Management and Those Charged with Governance,” the words “the client” could be removed without changing the meaning. The two headings would then be “Responsibilities of Management and Those Charged with Governance” and “Responsibilities of Professional Accountants”, and would be more consistent. For example:

Responsibilities of the Client’s Management and Those Charged with Governance

Management with the oversight of those charged with governance, is responsible for ensuring that the client’s business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The client;
- (b) An individual charged with governance of the entity client;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the client.

Paragraph R360.18 – This paragraph has a very unusual construct. As there is no common lead-in to the sub-paragraphs, two separate paragraphs may be more appropriate. Additionally, in sub-paragraph (a), it is not clear what the words “shall take steps to have the matter communicated to” intend. This could be more simply drafted as “shall communicate to...” Similarly, in sub-paragraph (b) the requirement to “arrange for appropriate inquiries to be made” could be more simply drafted. In addition, *paragraph 360.18 A2* refers to making inquiries of publicly available information. One does not ordinarily make inquiries of information. We recommend the following changes:

R360.18-(a) If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement partner shall ~~take steps to have the matter~~ communicate the matter to those performing work at the components, unless prohibited from doing so by law or regulation.

(New paragraph) (b) If necessary, the group engagement partner shall ~~arrange for appropriate~~ obtain information about whether inquiries to be made as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit and, if so, ~~to ascertain to the extent practicable the identity of the auditor.~~

360.18 A2 For the components specified in paragraph R360.17(b), the information inquiries might be obtained by making inquiries made either of management or obtained from publicly available information.

Paragraph 360.24 A1 The word “or” has been removed in making the list. Adding “or” to the penultimate consideration would indicate that not all actions are necessary. In addition, “might” is used twice within the same sentence.

~~As e~~Consideration of the matter might involve complex analysis and judgments. Accordingly, the professional accountant might consider

- Consulting internally;
- Obtaining legal advice to understand the accountant’s options and the professional or legal implications of taking any particular course of action; or
- Consulting on a confidential basis with a regulator or professional body.

Paragraph R540.8 and R540.9 In the close-off document, *Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*, paragraphs 290.167 and 290.168 both use “when”. In paragraph R540.8, when has been changed to “if” however, paragraph R540.9 still uses when. The NZAuASB questions whether the IESBA policy for using “when” and “if” is being consistently applied and recommends changing paragraph R540.9 for consistency.

~~When~~ If a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible...

Paragraph 800.3 A1 The first two sentences of this paragraph may be clearer if combined. This construct also eliminates two of the three instances of “might” in these two sentences.

The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly or indirectly, through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. ~~Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users...~~

Paragraph R800.4 The second sentence of this paragraph may fit better as part of the scoping of Section 800 following paragraph 800.2.

The following wording, or similar, could be used:

[New paragraph] When the audit of financial statements is required by law or regulation, the exceptions to the independence requirements in Part 4A are not permitted.

Paragraph R800.5 This paragraph is a reminder that, if the firm also issues an audit report for the same client that does not include a restriction on use and distribution, Part 4A of the Code applies. The NZAuASB recommends removal of the “R” label and redrafting as follows:

If the firm also issues an audit report that does not include a restriction on distribution or use and distribution for the same client, ~~the firm shall apply~~ Part 4A (excluding this section) applies to that audit engagement.

Paragraph R800.6 This is an example of a permission paragraph that is labelled as a requirement. The following wording is suggested, along with removal of the “R” designation:

When the firm performs an eligible audit engagement, ~~the firm does not need to apply~~ the independence requirements set out in Part 4A (excluding this section) that apply only to public interest entity audit engagements are not applicable.

In paragraphs R800.7 and R800.8, the wording “do not need to” is unclear and confusing. The following construct may be simpler and less confusing:

R800.7 When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not ~~need to include its related entities, unless. However, when~~ the audit team knows or has reason to believe...

R800.8 When the firm performs an eligible audit engagement, the ~~specific requirements regarding network firms set out in Part 4A (excluding this section) do not need to be applied~~ apply unless. However, when the firm knows or has reason to believe...

Paragraph R800.9(a) This paragraph could be simplified by removing the word “need”:

The relevant provisions set out in Sections ... ~~need~~ apply only to ...

Paragraph 905.4 A2 This paragraph provides examples of actions that are safeguards to address the threat created when total fees generated from a client represent a large proportion of the total fees of the firm. Increasing the client base in the firm to reduce dependence on the assurance client is one example of an appropriate action. This action may not always be possible. An alternative action, previously implied, in the extant Code was that the firm could eliminate work from the client, thereby reducing dependence on the assurance client with respect to large relative fee dependence.

Examples of actions that might be safeguards to address the threats set out in paragraph 905.4 A1 include:

- ~~Reducing the~~ Increasing the client base in the firm to reduce dependence on the assurance client, for example, by increasing the client base in the firm.
- External quality control reviews.
- Consulting a third party, such as a professional body or a professional accountant, on key assurance judgments and taking appropriate steps following that consultation.