NZ AUDITING AND ASSURANCE STANDARDS BOARD

APESB Board Meeting Paper

AGENDA ITEM NO.	4
Meeting date:	22 August 2017
Subject:	Long association
Date:	3 August 2017
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☐ **Action Required**	☒ **For Information Purposes Only**

Agenda Item Objectives

To provide a summary of the New Zealand Auditing and Assurance Standards Board's (NZAuASB) project to adopt the revised long association provisions in New Zealand to date.

Background

1. The NZAuASB has an active project to adopt the revised long association provisions issued by the International Ethics Standards Board for Accountants (IESBA). The NZAuASB sought feedback on the IESBA exposure drafts in both 2014 and 2016, and issued a New Zealand 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* in May 2017. The comment period for the New Zealand exposure draft closed on 31 July 2017.

2. The New Zealand exposure draft proposes to adopt the international requirements. Three key matters explored in the exposure draft include:

   a. To whom the revised provisions will apply i.e., the New Zealand PIE definition;

   b. The transitional arrangements and the differences between Australia and New Zealand that arise; and

   c. A New Zealand proposal to apply the revisions for PIEs (7 year on 5 year off rule) on all assurance engagements, not just audit and review engagements. Existing New Zealand requirements require the extant 7 year on and 2 year off rotation cycle for other assurance engagements.

3. The NZAuASB has considered the impact of the revised long association proposals on all entities considered to be public interest entities (PIEs) in New Zealand, and sought feedback on whether it remains in the public interest for the revised provisions to apply to all New Zealand PIEs, as

currently defined, given the nature and size of the New Zealand economy and the supply of auditors that are licensed to perform these audits.

4. In New Zealand, any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1 are deemed to be Public Interest Entities.

5. The following is a snapshot of the types of entities that are captured by the New Zealand PIE definition:

Tier 1 For Profit Accounting Requirements				**Tier 1 PBE Accounting Requirements**		
Listed issuers	Other FMC reporting entities considered to have a higher level of public accountability[1]	Large for-profit public sector entity	May opt down, but voluntarily applies tier 1	Large public sector entity	Large not-for profit entity	FMC reporting entities considered to have a higher level of public accountability
Both listed debt and equity	For example: • Registered banks • Insurers • Credit unions • Building societies • Licensed derivative issuers • Licensed MIS managers • Recipients of money from conduit issuers	For example: • Port companies • Energy companies • Airports • State owned enterprise and Mixed ownership companies		For example: • Large DHBs • Large government departments • Large crown agents • Large city /district/ regional councils • Crown tertiary education institutions	For example large registered charities	For example: • Listed debt and equity • Credit unions

6. Another key matter considered is that the permission to defer the longer cooling off period where a shorter cooling-off period is established in law or regulation (section 290.163) would currently

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[1] A FMC reporting entity considered to have a higher level of public accountability is defined as a FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- Under section 461K of the Financial Markets Conduct Act 2013; or
- By notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Information on FMC designations is available on the FMA website.

not apply in New Zealand. There is no law or regulation that establishes the cooling off period at less than 5 years. The exposure draft highlighted that this would be different for listed entities in Australia. This will have implications for dual listed entities, since in Australia the Corporations Act 2001 and APRA regulations have established cooling off requirements of less than 5 years.

7. The following table highlights the differences between New Zealand and Australia, given that auditors of PIEs in Australia may be able to defer the extended 5 year cooling off period until 2023:

Role	Indicative NZ Code with NZX requirement in years		Draft Australian Code with the Act pre 2023 in years		Draft Australian Code with Act post 2023 in years[2]	
	Time-on	Cooling off	Time-on	Cooling off	Time-on	Cooling off
EP	5	5	5	3	5	5
EQCR	7	3	5	3	5	3

8. The NZAuASB held a webinar to highlight the issues explored in the exposure draft. In addition, the NZAuASB has considered the FAQs issued by the IESBA staff and agreed to include these and other New Zealand specific FAQs on the XRB website. A key issue raised through the FAQs is the effective date and the impact of the retrospective application of the revised requirements. The new provisions become effective for audits of financial statements for periods beginning on or after 15 December 2018. The engagement partner must have completed a two-year cooling-off period under the old provisions before the new provisions come into effect, otherwise the new rules apply

Feedback received to date

9. The NZAuASB will consider a detailed analysis of the feedback received at its next meeting on the 6th of September. The NZAuASB intends to approve a New Zealand standard at its October meeting (under the old structure) i.e., the intention is to finalise the New Zealand provisions and to include it later in the restructured format.

10. The NZAuASB has received 9 submissions, from the large firms (3), smaller firms (3), the office of the Auditor-General, Chartered Accountants Australia and New Zealand and the NZX.

11. Initial analysis of feedback received from New Zealand constituents indicates that:

[2] If the Corporations Act 2001 retains the requirement for a five year time-on period.

a. There are concerns that the adoption of the revised cooling off requirements may have a negative impact on audit quality (6 submissions), and result in a contraction of the audit market (4 submissions);

b. There are views that the New Zealand PIE definition should be amended (5 submissions), with various suggestions raised, for example, only include entities designated as having a higher level of public accountability by the Financial Markets Authority (FMA), and/or exclude entities that voluntarily elect to apply tier 1 (5 submissions);

c. There is a preference expressed to align the requirements across the Tasman (4 submissions).

   The NZX comment was as follows:

   "There are 30 companies that are listed on both the NZX Main Board and the ASX Main Board, who have the status of 'Foreign Exempt' companies on the ASX. The impact of a Foreign Exempt listing status is that these companies do not need to meet the majority of ASX's requirements. As a result, these companies will need to meet the NZX requirements in relation to auditor rotation but we need to better understand how this interacts with any auditor rotation requirements under the Corporations Act 2001. The total number of dual listed issuers is approximately 35 (both Foreign Exempt and ASX Standard Listed issuers). Alignment between regimes in New Zealand and Australia will remain a concern for dual listed companies";

d. There is a request to defer the mandatory application of the 5 year cooling off period until 2023 (2 submissions)

e. There is a preference to align with the international requirements for assurance engagements other than audits and reviews. (5 submissions)