

24 February 2010

The Chairperson
Accounting Professional & Ethical Standards Board Limited
Level 7, 600 Bourke Street
Melbourne Vic 3000
AUSTRALIA

Dear Kate

Consultation Paper: Proposed Revision of APES 110 *Code of Ethics for Professional Accountants*

We note with interest that your Board is seeking comment on particular issues relating to your adoption of the revised International Code of Ethics for Professional Accountants (IFAC Code). The Professional Standards Board (PSB) of NZICA is also working on updating NZICA's *Code of Ethics* and *Code of Ethics: Independence in Assurance Engagement* (NZ Code) in response to changes that have been made to the IFAC Code.

In light of the increasing calls for trans-Tasman harmonisation, in particular the release of the joint statement of intent signed by the Australian and New Zealand Prime Ministers in August last year, we can see benefit in our Boards working together to see whether it is possible to achieve similar outcomes in updating our respective ethical requirements for, in particular, auditor independence. (We note that the single economic market outcomes framework identifies the proposal for auditors registered in one country to be able to operate in the other country within 5 years. Having the same or similar independence requirements would clearly assist in this regard). Accordingly, we would like to take this opportunity to outline our current thinking in relation to the IFAC Code.

The PSB has discussed our general approach to convergence with the IFAC Code, i.e. should we incorporate the Code into our documents (as we have done with the IAASB promulgations) or should we revise the NZ Code in a manner that is the best fit for New Zealand, while ensuring that the resultant requirements are no less stringent than those in the IFAC Code? The PSB noted: that the IFAC Code is not as strong as the NZ Code in some areas even after the current revision; that there are a number of overseas jurisdictions who have decided not to adopt the revised IFAC Code but continue with their own standards, subject to them being no less stringent than the international Code; that there are a number of paragraphs in the IFAC Code that are not clear; and that the decision to split the section covering independence into two sections creates ambiguity and introduces a significant amount of duplication. Accordingly, the PSB's preference is *not* to adopt the IFAC Code 'as is', but that the NZ Code should be revised, where necessary, to reflect the requirements in the IFAC Code and therefore ensure that we continue to comply with IFAC's membership obligations.

The PSB also expressed a view on sections 290 and 291 of the IFAC Code which is particularly relevant to item 3 in your consultation paper.

The PSB's preferred position is *not* to retain the split of the independence requirements introduced into the IFAC Code but to have a single set of requirements that would apply, in general, to *all* assurance engagements. Where there are valid differences between requirements deemed appropriate for audits and reviews of financial statements, this could be made clear within the one overall set of requirements.

The reasons for this included:

- Having two 'standards' of independence doesn't make sense. Conceptually the issue should be *is the accountant required to be independent for this engagement?* If the answer is 'yes', then the type of engagement is largely irrelevant.

To illustrate this, consider two examples where section 290 does not apply: an engagement in respect of prospective financial information for inclusion in a prospectus (not an audit engagement as defined in the IFAC Code); any direct reporting audit (e.g. performance audit, audit of effectiveness of internal controls, audit of service organisations for the purpose of providing assurance to the organisations' clients' auditors on the controls operating within the service organisation). It is difficult to understand why the provisions of section 290 should not apply to these types of engagement. An entity issuing a prospectus would be an entity of significant public interest but under the proposal, a practitioner would appear to only need to consider section 291, and apply its less detailed provisions. Similarly an assurance report on controls at a service organisation could be considered and possibly relied on by auditors of entities of significant public interest, and yet section 290 does not apply to this type of engagement.

Take a further example, of current relevance. The IAASB has just released a discussion paper on the assurance of greenhouse gas statements. An auditor conducting such an engagement would be subject to the independence requirements of section 291. The greenhouse gas statement may appear in a company's annual report, along with the financial statements. The auditor of the financial statements would be subject to section 290. Further, numbers generated and reported on in the greenhouse gas statement could also be relevant to the measurement of certain assets and liabilities appearing in the financial statements. To have different standards of independence applying to these two potentially interrelated set of statements does not seem appropriate.

- The definitions of audit and review in the IFAC Code and those in the Assurance Framework (based on the IAASB framework) differ. The New Zealand standards currently identify assurance engagements as being either "reasonable assurance" which we have always considered to be an audit engagement and "limited or moderate assurance" which we have always considered to be a review engagement. Therefore, we could not use the terminology in the IFAC Code to distinguish the coverage of the two sections – i.e. one section relating to audit and review engagements and the other relating to other assurance engagements. Under our framework all assurance engagements are either audits or reviews - there are no other assurance engagements. It is the subject matter that determines which section applies.
- A firm could be carrying out an assurance engagement in accordance with the ISAs (which apply to audits of financial statements and are to be adapted as necessary for audits of other historical financial information) but be subject to section 291 of the IFAC Code because the engagement is not strictly an audit of a complete set of financial statements. Again, this would not seem appropriate.
- Having two sections on independence introduces unnecessary complexity for assurance practitioners in determining which 'rules' operate on each engagement.
- Having two sections on independence leads to unnecessary duplication of material.

We trust that these comments will be useful as you draft your revised APES 110. We would welcome the opportunity to discuss these matters as our respective boards work towards issuing our exposure drafts.

Should you have any queries concerning any of the above please contact either myself at the address details provided below or Helen Prangnell (helen.prangnell@nzica.com).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Neil Cherry', is written over a large, horizontal oval scribble.

Neil Cherry
Chairman – Professional Standards Board
New Zealand Institute of Chartered Accountants