Grant Thornton

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Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington, 6142

Email: submissions@xrb.govt.nz

Audit

Grant Thornton New Zealand Limited
L4, Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140

T +64 (0)9 308 2570
F +64 (0)9 309 4892
www.grantthornton.co.nz

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Dear Tony

Exposure Draft 2012-6

Grant Thornton New Zealand Limited (Grant Thornton) is pleased to provide the External Reporting Board (XRB) with its comments on the following Exposure Draft "Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Providers,* and the withdrawal of Professional and Ethical Standard 2 *Independence in Assurance Engagements"* (the "ED")

We have considered both the ED and the accompanying Invitation to Comment ("ITC") and set out our comments below.

Grant Thornton's response to both documents reflects our position as auditors and business advisers to listed companies, privately held businesses, not for profit entities and the public sector entities in New Zealand.

Summary

We broadly support the proposed changes and agree with the pathway the New Zealand Auditing and Assurance Standards Board (NZAuASB) wants to take the assurance profession in this country. To us, aligning our New Zealand requirements with the International Code of Ethics issued by the International Federation of Accountants (IFAC Code) makes complete sense, as was anticipating guidance in three exposure drafts that, in our opinion, will be issued (largely unchanged) by the International Ethics Standards Board for Accountants (IESBA).

However, we do question whether some the New Zealand specific changes are warranted. Imposing requirements higher than other countries should only exist when there are circumstances that are unique to New Zealand.

Generally speaking, the assurance work we conduct in New Zealand is no different to what other firms in the Grant Thornton International network undertake, so extremely good reasons have to be present to justify placing a greater burden on assurance professionals in New Zealand. In this regard the ITC was helpful identifying why the changes were made.

So we challenge the NZAuASB when issuing the final standard to not only draw attention to **all** the changes they have made to the IFAC code on pages 133 and 134, **but also** to provide some reasoning as to why the changes were made. In essence our wish is for more commentary along the lines noted in the second bullet point under *Independence Requirements*.

Request for specific comments

1. **Do you consider that any of the new requirements which align with the IFAC Code requirements pose specific challenges or are not appropriate in the New Zealand context?**

   We note with interest that the NZAuASB has chosen to link public interest entities to the External Reporting Board's (XRB) "Accounting Standards Framework". Given that it is the Government and not the XRB that has decided who should be captured in Tier 1, we would like to see a cross reference to the Financial Reporting Bill 2012 (soon to Act) as well.

2. **Do you consider there are any weaknesses or gaps in the proposals that need to be addressed in the New Zealand context?**

   The index makes reference to *Second Opinions*, and when one goes to page 30 we see that three paragraphs have been deleted by the NZAuASB. We do not agree with the NZAuASB's conclusion that the issuance of second opinion does not relate to assurance. We believe on occasion it can as we have been asked to provide independent accounting opinions to support the audit process of another firm and used AES-1 *Opinions on Accounting and Reporting Matters* to guide us.

3. **Do you agree with the addition of the New Zealand paragraphs and the differences to the IFAC Code? If not, please provide details on the specific provisions and why you disagree with the addition.**

   Below we provide comments on the New Zealand paragraphs:

NZ140.7.1	We support this and we note later in the letter another situation where we believe legal advice should be obtained.
NZ140.9/10	We support the inclusion of these paragraphs.
NZ220.7/8	Given that New Zealand is a small country and protocols have been developed by both the Office of the Auditor-General and the New Zealand Institute of Directors the rationale for this is sound. However, it would be good to have an Appendix that illustrates how this might be communicated so that there is consistency between firms in dealing with this sensitive issue.
NZ240.9	While this rewording elegantly replaces what has been deleted in the previous paragraphs (240.5 to 240.7) we see this as being change for changes sake, rather than adding something substantive, and therefore we suggest that the NZAuASB look to

	get the IFAC document amended to reflect what the NZAuASB has drafted.
NZ290.1.1	We do not disagree with this change to but the hanging question we have is "why did the IESBA not consider the prospective and pro-forma financial information?" We would like to see the NZAuASB bring this matter to the IESBA's attention.
NZ290.11.1	We question why this additional paragraph has to be added. In our view the "qualitative as well qualitative factors" referred to in paragraph 290.11 covers this.
NZ290.25.1	Our preference would be to have a footnote linked to paragraph 290.25 rather than a replacement paragraph noting what entities are involved in a New Zealand context
NZ290.146	We agree with the inclusion of liquidator or receiver. We also note that a comma should be inserted between "officer" and "liquidator".
Page 64	Footnote 3 should probably refer to full title of the document the NZ Securities Commission issued which is: "Corporate Governance in New Zealand Principles and Guidelines: A Handbook for Directors, Executives and Advisers" and since the "NZX" is not defined previously, it should probably be given its full name.
NZ290.220.1	We question why this paragraph needs to be included. We do not think it's necessary. However, if it remains we think there should be further direction on "how" and "when" withdrawal from the engagement should occur.
NZ291.1.1	Should the term "issuer" be used here? It's very narrow. Why not use "public interest entity"?
NZ291.3.2	We suggest the number of employees be removed as it is no longer a factor in determining size from a financial reporting perspective.
NZ291.10.1	Yes, this is helpful to reinforce consideration of the combination of small threats, and we note what both Australia and the United Kingdom have done. We think this is another matter than should be taken up with the IESBA.
NZ291.27.1	It would be helpful to have an explanation in this paragraph as to why paragraphs 291.100 to 290.159 should only apply to public interest entities because it was only when we read the final bullet point on page 134 that the reasoning for this was provided.

NZ291.33/44 We support the intention to follow the IESBA proposed changes.

NZ291.139.1/5 We support the 7 year rotation period and the need for a complete 2 year stand down period.

NZ291.150.1 We support the prohibition of valuation services to public interest entities.

NZ291.150.2 We support the prohibition of IT system services.

NZ291.150.3 We support the prohibition of recruiting services for key positions.

NZ291.152.1 While we do not disagree with the importance of a pre-issuance or post-issuance review when the total fees from an assurance client represent more than 15% of the total received by the firm, we question why there is a need for this to be done in NZ and nowhere else? And is this determination completed solely in relation to fees received by the NZ firm of accountants? For example, if Grant Thornton Australia came across to New Zealand to assist us on a very significant multinational audit and directly billed the group for the audit work they were responsible for, and our combined fee (Grant Thornton NZ and Grant Thornton Australia) was greater than 15% of Grant Thornton New Zealand's revenue, would this circumstance trigger the requirement?

4. **Do you agree with the definition of "public interest entity" (paragraph NZ290.25 and NZ 291.3.1)? In particular, are there any other types of entity which should be included as public interest entities?**

   Yes. In the footnote there is reference to "Public Benefit Entity" but it is not defined anywhere else in the document. If this is to be a standalone document we think this term should be included in the Definitions.

5. **Do you consider the proposed effective date appropriate?**

   Yes. However, we would like to see the New Zealand, rather than the US, convention of dating (ie day/month/year) used throughout the document.

6. **Do you consider the transitional provisions appropriate? If not, please specify what additional provisions may be needed.**

   Yes. Our firm will not have any difficulties meeting these requirements.

7. **Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposals? If so, please provide details.**

No.

8. **Are there any issues arising from the proposed Code that you consider the NZAuASB should raise with the IESBA when the IFAC Code is next updated? If so, please provide details.**

   Yes. We have six suggestions:

   1. As noted above – the improvement you have made and reflected in paragraph NZ240.9.

   2. In paragraph 220.1 we would like the two bullet points to read as follows:

      - Conflicts between the interests ***and relationships*** of two or more clients; or

      - Conflicts between the interests ***and relationships*** of the assurance provider and **the relationship** of the client

      We would like to see this because in other parts of the document reference is made to "interest and relationships".

   3. Section 290.40 discusses communication of the breach with those charged with governance. Worldwide, Grant Thornton believes that timely reporting is critical to appropriate evaluation of a breach and as such the proposal should include an appropriate timeframe for communication. For example, revising the paragraph to state "If the firm concludes that a ***significant*** breach has occurred, the firm shall communicate in a timely manner, the matter to those charged with governance …"

      Section 290.44 provides a list of possible actions a firm may take to satisfactorily address the consequences of a breach. Realising the list includes examples and is not intended to be all inclusive, we would like to see the XRB suggest to IESBA that they consider including the following examples in the list:

      - Disposal of the financial interest causing the breach
      - Eliminating or reducing the magnitude of the business relationship to an acceptable level

      Section 290.45 discusses when the firm determines that action cannot be taken to satisfactorily address the consequences of the breach and begins to take the necessary steps to terminate the engagement. We believe due to the significance of this decision, the firm should consider obtaining legal advice. Therefore we suggest that the following sentence be added to the end of the paragraph, "***In such situations, the professional accountant may consider seeking legal advice.***"

   4. We would like you to take the wording you have in paragraphs NZ140.9 and NZ140.10 to the IESBA for further consideration.

5. We would also like you to raise with the IESBA what you have included in NZ290.1.1 on prospective and pro-forma financial statements.

6. We would also like you to raise the change that has been reflected in NZ291.10.1.

Other comments for consideration

For the avoidance of doubt, we would like the NZAuASB to consider where "agreed-upon procedures" fits into all of this, because it is seen by many in the profession as a form of assurance. Of course it is not because no opinion is expressed when undertaking agreed-upon procedures work: it is just a statement of facts. That said, in the definition of "assurance engagement" noted in" Definitions", it might be useful to draw attention to why agreed-upon procedures is not captured in the paragraph immediately below the definition.

Finally, Grant Thornton would like to thank the XRB for this opportunity to comment and would welcome the opportunity to meet with representatives from the XRB to discuss these matters further. My contact information is below.

Yours sincerely
Grant Thornton New Zealand Limited

Mark Hucklesby
National Technical Director
T: +64 21 664 585
E: mark.hucklesby@nz.gt.com