

5 February 2018

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PO Box 11342  
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Via email [submission.feedback@charteredaccountantsanz.com](mailto:submission.feedback@charteredaccountantsanz.com)

Dear Gillian

### *SUBMISSION ON PROPOSED REVISION OF CODE OF ETHICS*

#### Overall Comments

Thank you for the opportunity to comment on the exposure draft (ED) 2018-2 Proposed revision of *APS-1 Code of Ethics*. We support the proposed revision of the existing Code. The Code of Ethics is an integral document which underpins the core values of the accounting profession and helps us, as members, build public trust and confidence in the integrity of the profession. As such, we consider that it is vital that the Code is as user friendly as possible, so that members are encouraged to read and apply the Code when faced with an ethical dilemma.

To further help members apply the Code, we consider that it would be useful to create a flowchart to assist members in working through ethical issues. We have developed a draft flowchart that could be used as a starting point (included in Appendix 2 of this letter). The flowchart could also illustrate:

- the linkages between the Code and other core documents (such as PES 1 Revised);
- the linkages between the Code and other professional requirements and resources, such as:
  - the NOCLAR requirements
  - the Members Handbook; and
  - professional body processes and ethical support functions, such as the Chartered Accountants Australia and New Zealand (CA ANZ) complaints process and professional and ethical support provided by the Professional Standards team.

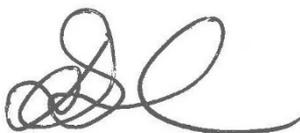
Given the importance of aligning the Code with other relevant codes such as the APESB *Code of Ethics* (APES 110), the IESBA *Code of Ethics* and PES 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the External Reporting Board, the flowchart could be made available on the CA ANZ website rather than including within the Code itself.

#### Detailed Comments

We have included our responses to the specific questions raised in the Invitation to Comment (ITC) in Appendix 1. We have also included a small number of editorial comments. Information about the Staples Rodway network is provided in Appendix 3.

We hope the comments contained in our submission are useful. If you would like to discuss any of these comments please contact Nicola Hankinson, National Technical Manager, at [nicola.hankinson@stapleswellington.co.nz](mailto:nicola.hankinson@stapleswellington.co.nz).

Kind regards



David Searle CA  
Chair, Staples Rodway New Zealand

## Appendix 1: Responses to specific questions in the Invitation to Comment

1. *Do any of the amendments arising from the **Structure project** (refer page 10) appear unclear? Please provide details.*

The Structure project amendments are clear and we are particularly supportive of the inclusion of introductory paragraphs to help provide context for each section. However, as stated in our cover letter, given the length of the Code we consider it would be useful to include a diagram or flowchart to assist members in applying the Code. While the Guide to the Code is helpful, members are also likely to find a flowchart to assist them to work through ethical issues on a case-by-case basis useful.

Overall, we consider the amendments have helped to improve the overall flow of the Code. However, there is still some duplication of material within the Code, such as the repetition of NOCLAR and inducements sections within both the MIPP and MIB parts of the Code (Parts 2 and 3) as a result of the Applicability Project. Reduction of duplicated material would help to further improve the overall readability of the Code.

We acknowledge that the proposed New Zealand Code is largely taken from the international Code which includes these sections. We recommend that NZICA raise the duplication issue with IESBA to consider for future revisions of the Code.

2. *Will any of the amendments arising from the **Safeguards project** (refer page 11) change your current practices, policies or methodologies? Do you require any further guidance to implement these changes? Please provide details.*

No. We consider the emphasis on the 'reasonable and informed third party test', supported by explanation of this term within the Glossary, will help our staff to better understand and apply the Code to ethical dilemmas they face. We also strongly support the requirement to undertake a "step back" review as we consider this will sharpen members focus on considering situations on a more holistic level.

We agree with the statement made in the Overview of Proposed Amendments, that the amendments will require a change of mindset to determine how to apply the conceptual framework to ethical issues. In our view, application of the revised Code will result in greater understanding of the Code amongst members. Given the changes to the Code do not significantly change the underlying ethical expectations or requirements we anticipate reinforcing the changes through our regular ethical training sessions rather than making extensive changes to our internal policies and procedures.

3. *Do you agree with the amendments arising from the **Applicability Project, the Professional Skepticism (short-term) Project, the Part C Project - Phase 1 (members in business) and the Part C Project - Part 2 (inducements)** (refer pages 12 - 14)? Do they create issues or are they inappropriate in the New Zealand context? Please explain any issues you have identified.*

We consider the amendments arising from the Applicability, Professional Skepticism and Part C Projects are appropriate. In particular we applaud the inclusion of section 270: Pressure to Breach the Fundamental Principles, as we consider this will assist members in understanding the context around when they may be subject to pressure (or exerting pressure), to breach these principles. We also consider the explanation of the importance of developing an understanding of the facts and circumstances before being able to apply professional judgement and determine the appropriate action to be taken is useful.

One further suggestion is inclusion of a non-audit example in the Professional Skepticism application material. We note that the proposed Code contains an example illustrating the linkage between the fundamental principles and professional skepticism in the context of an audit. However, given the Code issued by NZICA does not apply to assurance engagements it would be useful to include a non-audit example as well.

4. Do you agree with the **amendments** to the **NZ specific provisions**? Please explain any issues you have identified.

We largely agree with the New Zealand specific provisions. However, we consider it would be worth tailoring the references to professional body within the Code, to make it clear that this refers to NZICA/CA ANZ. While the references in the international Code to professional body are fairly neutral, given the New Zealand Code is issued by the professional body itself, it would be sensible to tailor these references to make it clear to members that they should contact NZICA/CA ANZ in certain instances (i.e. sections 110.2 A2, 115.2 A1, 210.9 A1, 220.8 A2, 260.12 A2, 260.19 A1, 260.24 A2 and 360.39 A1).

We also consider it would be useful to include guidance around the laws and regulations in New Zealand relating to the offer and acceptance of inducements and communication and disclosure of confidential information. This could be included in section 320.7 A1 (perhaps as a footnote to the statement "the legal and ethical requirements relating to such communications and disclosure, which might vary by jurisdiction) and 340.5 A1 (below the requirement to obtain an understanding of laws and regulations that may prohibit the offering or acceptance of inducements in each jurisdiction).

5. Do you consider any (or all) of the **NZ specific provisions** to be unnecessary? Please provide details including the reason why you consider the provision unnecessary.

No.

6. Do you agree with the inclusion of **NZ210.8 A1** and **NZ310.14 A1 (conflicts of interest)**? Should the guidance be elevated to a requirement? Please explain your response.

Yes, we agree it is important to adequately document the nature and circumstances of the conflict, the ethical considerations and the specific measures and safeguards applied to mitigate the conflict (such as disclosing the situation to the client and, where appropriate, obtaining the parties' written consent to continuing to undertake the engagement). Conflicts of interest are a key area in which professional judgement is required to be exercised and we consider that documentation of the engagement team's thought processes is a useful way to demonstrate that proper consideration and professional judgement was applied. We consider that inclusion of explicit guidance encouraging members to document matters relating to conflicts of interest, particularly important given the high level of subjectivity involved and the relative prevalence of conflicts of interest in the New Zealand business environment (given its size).

We do not consider the paragraphs need to be elevated to a requirement, particularly in circumstances where consent may be implicit as per section 210.8 A2.

7. Do you agree with the inclusion of **NZ R330.4.1 (contingent fees)** and **NZ R330.5.1 (referral fees, commissions or similar benefits)**? Please explain any objections you have.

Yes, we consider that these requirements codify existing expectations and ensures alignment of ethical requirements for CA ANZ members operating on both sides of the Tasman. It may be useful to include guidance advising members of the existing New Zealand standards/legislation in place in relation to contingent fees (i.e. in section 330.4.1 A1).

8. Do you agree with aligning the **effective date** with the effective date of the International Code and the proposed effective date of the NZAuASB Code? Please provide details of any objections.

Yes, we agree it is appropriate to align the effective date with the effective date of the international Code and the NZAuASB Code to promote consistency in application.

9. Are there any **additional issues** that need to be addressed for the **New Zealand context**? Please provide details.

It would be worth considering development of a mechanism to allow members to anonymously report non-compliance with the Code to NZICA (i.e. a whistle-blower or ethical hotline). Section NZ R100.5 requires members to report unethical behaviour of members to NZICA. Section NZ100.5 A1 states that the information disclosed could be made available to the member about whom the report relates pursuant to the Privacy Act 1993. Having the ability to report non-compliance anonymously may help to create an environment in which members are

protected when reporting non-compliance. We acknowledge there will be practical issues to consider in developing such a mechanism.

10. Are you aware of any **regulatory or other issues in the New Zealand environment** that may affect the implementation of the proposed amendments? Please provide details.

The review of the Protected Disclosures Act 2000 may introduce additional reporting requirements or options for making such disclosures in New Zealand. However, we consider that the references in the Code to reporting non-compliance, in particular sections 260 and 360 (NOCLAR), would not need to be amended as a result of changes in legislative requirements, given the high level at which they are pitched (i.e. R260.6 requires members to obtain an understanding of legal and regulatory provisions and comply with them, without providing any detail on what these provisions may be).

11. Are there any issues arising from the proposed Code that you consider should be **raised with IESBA** when the International Code is next updated? Please provide details.

As stated in 1. above, it may be worth raising the duplication of material within the Code with IESBA (i.e. duplication of material in both part 2 MIB and part 3 MIPP) to see whether this material could be refined in the next update.

12. Are there any areas you believe are **unclear** and require **additional guidance**? Please provide details.

The overall size of the Code (>100 pages excluding the requirements for assurance practitioners contained in PES 1 Revised) may mean that it is difficult to navigate. We consider a flowchart will help members to visually identify relevant parts of the Code, the relationship between the Code and other key documents and requirements and how to use the Code when an ethical issue arises. The Guide to the Code is a useful start, however this diagram describes parts of the Code itself, rather than explaining how the Code is intended to operate within a broader context.

13. Are there any other significant public interest matters that you wish to raise? Please provide details.

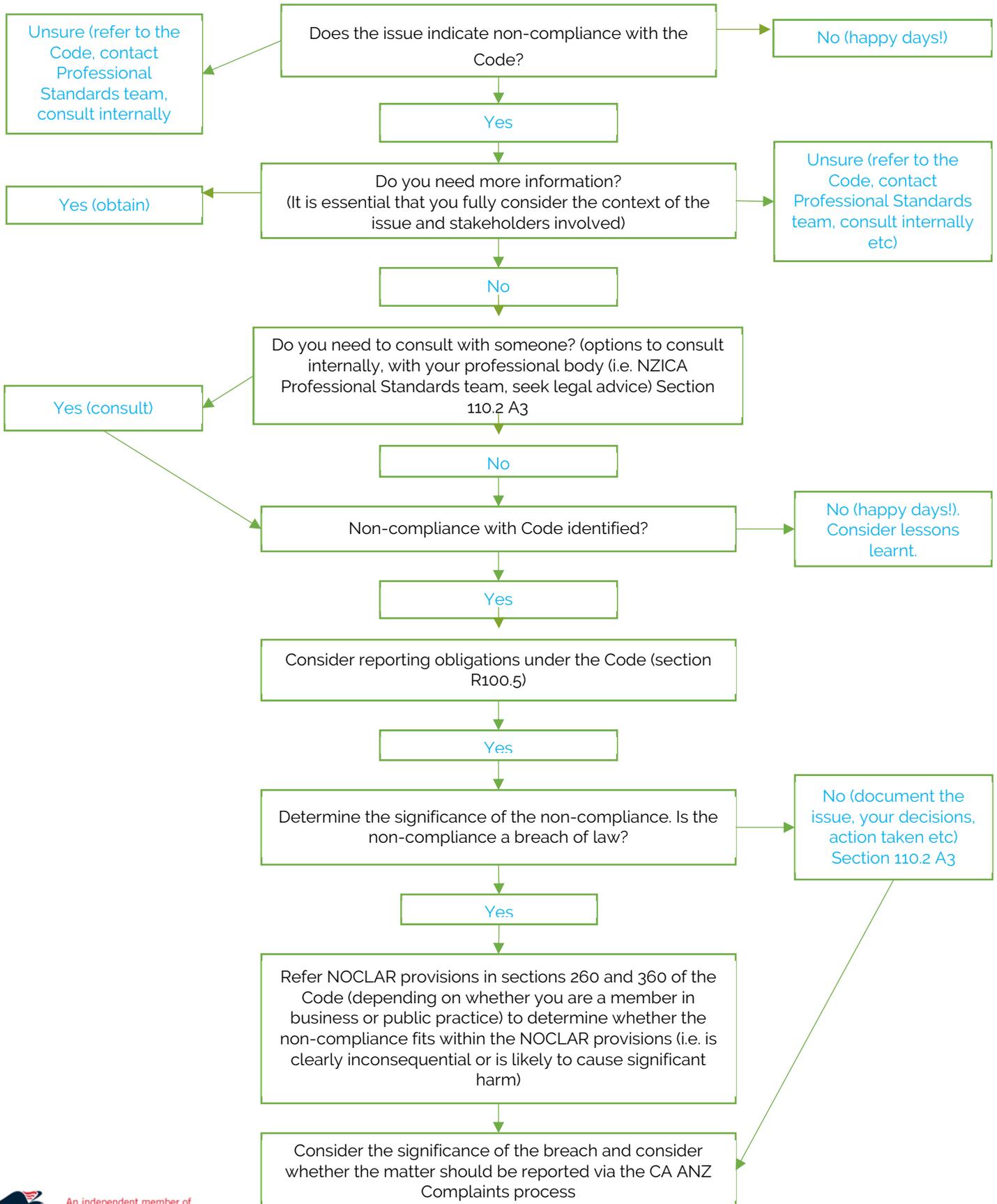
No.

#### Editorial comments

Page	Comment
16	Include 'Revised' after PES 1.
17	Para NZ 1.2 A1. Change 'who might be' to 'or are' [proposed wording is a bit confusing].
17	Para NZ 1.4 Recommend the impact of non-compliance is strengthened by changing 'might' to 'is likely to' in relation to exposing a member to disciplinary action.
69	Remove familiarity threat example relating to audit (as covered in PES 1 Revised).
76	NZ R310.9 Consider rewording as follows: ' <i>When measures or safeguards are required to reduce the threat to an acceptable level, the measure performing the professional services shall obtain the client's consent.</i> ' [proposed wording is a bit confusing].
86	NZ R330.5.2 and NZ 330.5.2 Consider deleting as this is included in PES 1 Revised.
91	340.15 A3. Reference to section 906 should perhaps be to PES 1 Revised.

Appendix 2: Illustrative flowchart to help members navigate ethical dilemmas using the Code

Steps to undertake when faced with an ethical issue



### Appendix 3: About Staples Rodway

Staples Rodway is an association of independent accounting firms, located in Auckland, Waikato, Tauranga, Hawke's Bay, Taranaki, Wellington and Christchurch. Staples Rodway is a full-service accounting and business advisory firm with a strong reputation for providing quality advice to privately owned, corporate and public sector organisations. With 51 partners and more than 400 professional & support staff operating across its seven offices, Staples Rodway is the 7<sup>th</sup> largest accounting firm in New Zealand,

Staples Rodway provides cross-border services through our international affiliated firms, including Pitcher Partners in Australia and the Baker Tilly International network.