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NZRB ED 2018-2 Proposed Revision of Code of Ethics

Dear Madam

We appreciate and thank you for the opportunity to comment on the NZRB's Exposure Draft ED 2018-2 (ED). We understand our submission is subject to the Official Information Act 1982, and have no objection to part or all of our submission being published on the CA ANZ website. (charteredaccountantsanz.com).

Questions for respondents

In response to the specific questions that the Board raised in the ED:

1. The only amendments arising from the Structure project that appear unclear are the linkage of the categories of threats and related examples to the fundamental principles. We have commented on this in the Appendix to this letter.
2. None of the amendments in the Safeguards project will change our current practices, policies or methodologies as we already apply this level of detail, the requirement for re-evaluation when facts and circumstances change, and a "reasonable and informed third party" test to comply with the PwC global network of firms' policies and procedures.
3. We agree with the amendments arising from the Applicability Project and the Professional Skepticism Project. We do have some minor suggestions for drafting changes to the Exposure Draft which we have included in the Appendix. We think these would be equally applicable to the International Code.
4. We agree with the NZ specific provisions and have not identified any issues.
5. We do not consider any of the NZ specific provisions to be unnecessary.
6. We agree with the inclusion of NZ210.8 A1 and NZ310.14 A1 because disclosure of a conflict of interest in writing is often a NZ market expectation. This conclusion is based on our experience negotiating contractual terms clients for services that could result in a conflict of interest e.g. due diligence engagements, litigation support etc. It is also helpful to have consent in writing from the relevant parties and to document all matters relating to potential/actual conflicts of interest in writing, in case a dispute later arises between the parties during the period in the Limitations Act 2010. We think the guidance should be elevated to a Requirement because having the disclosure and consent process provides more certainty on what was agreed to, if a dispute does later arise between the parties.
7. We agree with the inclusion of NZ R330.4.1 and NZ R330.5.1 as they support the fundamental principle of professional behavior.

8. We agree with aligning the proposed effective date for the ED with the effective date of the International Code.
9. There are no additional issues that we believe need to be addressed in the New Zealand context.
10. We are not aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposed amendments.
11. We do not think there are any significant issues arising from the proposed Code that the NZRB should raise with the IESBA when the International Code is next updated. We do have some minor suggestions for drafting changes to the NZ Code which we have included in the Appendix. We think these would be equally applicable to the International Code.
12. There are no areas we believe are unclear or require additional guidance other than those referred to in question 1 above.
13. There are no other significant public interest matters we wish to raise.

Our detailed comments on the additional NZ paragraphs and the differences to the International Code are set in the Appendix to this letter.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at vicki.j.lawson@pwc.com

Yours sincerely

A handwritten signature in black ink that reads 'Vicki Lawson' in a cursive script.

Vicki Lawson
NZ Partner Responsible for Ethics and Business Conduct

Appendix

Minor suggestions for the next update of the International Code which are also relevant for the ED

ITC question	Paragraph	Comment/observation
1	120.6 A3 300.6 A1	<p>These categories in paragraph 120.6A3 are also the five threats to independence for assurance engagements. These mostly most affect compliance with the fundamental principle of objectivity. It would be helpful to cross reference the examples of threats in paragraph 300.6A1 to the relevant fundamental principle(s) to improve the clarity of these paragraphs for users of the Code who are not auditors. e.g.</p> <p><i>300.6 A1 (a) Self Interest Threats</i></p> <ul style="list-style-type: none"> • <i>A member having a direct financial interest in a client. (Objectivity)</i> • <i>A member quoting a low fee to obtain a new engagement.....for that price (Integrity, Professional Behaviour)</i> • <i>A member having a close business relationship with a client. (Objectivity)</i> • <i>A member having access to confidential information that might be used for personal gain.(Confidentiality, Integrity)</i> • <i>A member discovering a significant error when evaluatingthe member’s firm.(Professional Competence and Due Care)</i> <p>Also, it would be helpful to consider whether there are any other broad categories of threats that relate to the fundamental principles that should be added to paragraph 120.6 A3 and flowed through the Code. For example non. compliance with training and professional development requirements could create a threat for the fundamental principle of Professional Competence and Due Care.</p>
1	300.8 A2	<p>We have the same concerns as regarding paragraphs 120.6 A3 and 300.6 A1. Whilst these are effective safeguards, it would be helpful to also cross reference the safeguards back to the relevant fundamental principle(s) to improve the clarity of this paragraph for users of the Code who are not auditors e.g.</p> <p><i>300.8 A2</i></p> <ul style="list-style-type: none"> • <i>Assigning additional time and qualified personnel to required tasks when an engagement has been accepted that might address a self review threat. (Objectivity, Professional Competence and Due Care)</i>
1	220.2	<p>A potential “self review” threat which is applicable to preparation of information could be added to this paragraph. Also it would be helpful to cross reference this threat to the relevant fundamental principle (as has</p>

		been done in paragraphs 210.2, 230.2, 250.2 and 260.2)
N/A	R230.3 230.3 A2	The Requirement refers to “ <i>expertise</i> ” of the individual but there is not mention of this in the supporting application material. an additional bullet point in 230.3 A2 of “ <i>insufficient expertise for the performance of the duties</i> ” might be appropriate.
3	250.11 A1	It would be helpful to add the “reasonable and informed third party” test to this paragraph e.g. <i>“The requirements and application material set out in the conceptual framework apply when a member considers a reasonable and informed party would be likely to conclude has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or another individual.”</i>
3	250.11 A2	It would be helpful to copy this comment into the Requirements in paragraphs R250.7 R250.8, R250.12 and R250.13 to save Members in Business the need to evaluate the impact of any inducements that are trivial or inconsequential.
3	R270.3 (b)	It might be appropriate to replace the word “ <i>would</i> ” with “ <i>could</i> ” in this paragraph to strengthen this Requirement.