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Submitted via email: [submission.feedback@charteredaccountantsanz.com](mailto:submission.feedback@charteredaccountantsanz.com)

Dear Gillian

**PROPOSED PS-1: *QUALITY MANAGEMENT***

1. The purpose of this submission is to provide the New Zealand Regulatory Board of the New Zealand Institute of Chartered Accountants (“NZICA”) with BDO’s comments on Proposed PS-1: *Quality Management* (“Proposed PS-1”). More information on BDO is provided in Appendix A to this letter. Thank you for the opportunity to comment on Proposed PS-1.
2. BDO considers that the availability of a range of high-quality accountancy services is important to New Zealand’s capital markets, businesses, lenders and investors. For that reason, BDO considers that the professional standards that underlie the conduct of the accountancy profession in New Zealand should be aligned with international standards to the greatest extent possible.
3. However, we acknowledge that there are limited circumstances in which it is necessary for the standards adopted in New Zealand to deviate from international standards. We consider that such circumstances ordinarily only arise due to specific New Zealand legislative or regulatory requirements, or because there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.
4. In this instance, we note that the scope of the applicable international standard, ISQM 1: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (“ISQM 1”), includes compilation engagements, which does not reflect the New Zealand regulatory environment, which differentiates between assurance engagements and all non-assurance engagements (including compilation engagements). For that reason, NZICA has concluded that it is appropriate for Proposed PS-1, which will apply to all non-assurance services, including compilation services, to deviate from ISQM 1. We consider that the conclusion that NZICA has reached in relation to this matter is reasonable.
5. We are broadly supportive of the general approach taken in Proposed PS-1 - i.e. following the requirements of ISQM 1, with the following exceptions:
  - a. Proposed PS-1 requires the firm to apply a risk-based approach in designing, implementing and operating its system of quality management, while ISQM 1 requires the firm to undertake a formal risk assessment process.

- b. ISQM 1 requires the firm to undertake a formal root cause analysis of deficiencies, while Proposed PS-1 does not contain this requirement.
6. We believe that multi service line firms may elect to implement PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (“PES 3”) requirements for all service lines in their firm due to the benefit that a formal risk assessment and root cause analysis would provide their System of Quality Management (‘SOQM’). Notwithstanding this, we think that greater guidance on these differences is required, so that firms that will adopt a hybrid system (PES 3 requirements for assurance services, and the requirements of Proposed PS-1 for all other service lines) will be able to do so effectively.
7. Our response to each of the questions posed in the Invitation to Comment that accompanies Proposed PS-1 is provided in Appendix B to this letter.
8. We acknowledge that this submission may be made publicly available.
9. If you require further information or would like to discuss any aspect of our submission further, please do not hesitate to contact either of the authors.

Yours sincerely  
**BDO New Zealand**



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**APPENDIX A:  
INFORMATION ON BDO**

1. BDO is a network of eleven independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting , business recovery and insolvency, Information Systems and ESG.
3. BDO in New Zealand has 100+ partners and 900+ staff.
4. Three BDO firms in New Zealand (BDO Auckland, BDO Christchurch and BDO Wellington) are registered audit firms and those firms have eleven licensed auditors.
5. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 97,000 people working out of over 1,700 offices across 167 countries

**APPENDIX B:  
RESPONSES TO QUESTIONS POSED IN THE INVITATION TO COMMENT**

1. Our response to each of the questions posed in the Invitation to Comment is provided in the table below:

Question	BDO response
<p><i>Question 1:</i></p> <p>Do you consider that NZICA should instead implement ISQM 1 (and, in particular, require a formal risk assessment process) for all firms? (Please see page 10) If so, please explain.</p>	<p>As outlined more fully above, we consider that the professional standards that underlie the conduct of the accountancy profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative or regulatory requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.</p> <p>While we envisage that multi service line firms will see benefit in applying a formal risk assessment process, in this instance, we agree with CAANZ’s conclusion that a deviation from the applicable international standard, ISQM 1, is warranted. On that basis, we do not consider that Proposed PS-1 should require a formal risk assessment process for all firms.</p>
<p><i>Question 2:</i></p> <p>Do you consider that NZICA should provide more prescriptive guidance on how firms should reconcile proposed PS-1 with PES 3? (Please see page 11) If so, please explain.</p>	<p>As noted above, we consider that many larger firms with audit practices may elect to implement ISQM 1 requirements for all service lines in their practice. Nevertheless, we note that some firms will adopt a hybrid system (PES 3 requirements for assurance services and the requirements of Proposed PS-1 for all other service lines) and we consider that greater guidance on the differences between PES 3 and Proposed PS-1 is required to enable firms to effectively and efficiently implement such a hybrid system.</p>
<p><i>Question 3:</i></p> <p>Do you consider that NZICA should require firms to carry out a formal root cause analysis in respect to identified deficiencies? (Please see page 15) If so, please explain.</p>	<p>As outlined more fully above, we consider that the professional standards that underlie the conduct of the accountancy profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative or regulatory requirements, or where there is compelling evidence of a</p>

Question	BDO response
	<p>fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.</p> <p>While we envisage that multi service line firms will see benefit in applying a formal root cause analysis, we agree with CAANZ’s conclusion that a deviation from the applicable international standard, ISQM 1, is warranted. On that basis, we do not consider that Proposed PS-1 should require a formal root cause analysis to be undertaken when deficiencies are identified.</p>
<p><i>Question 4:</i></p> <p>Do you agree with the inclusion of the additional requirements and application material highlighted in the commentary on pages 11-15? If not, please explain.</p>	<p>We consider that the inclusion of this material is appropriate.</p>
<p><i>Question 5:</i></p> <p>Are there any situations where you consider the meaning or intent of content in extant PS-1 has been inappropriately removed or amended when it has been restructured or re-written for the purposes of ED2022-1 (proposed PS-1)? If so, please provide details of the provision, how the content has changed and why you consider this change inappropriate.</p>	<p>We do not consider that there are any instances where the meaning or intent of content in extant PS-1 has been inappropriately removed or amended when it has been restructured or re-written for the purposes of Proposed PS-1.</p>
<p><i>Question 6:</i></p> <p>Do you consider that there are any regulatory or other issues in the New Zealand environment that have not been properly addressed in proposed PS-1? Please provide details.</p>	<p>We do not consider that there regulatory or other issues in the New Zealand environment that have not been properly addressed in Proposed PS-1.</p>
<p><i>Question 7:</i></p> <p>Are there any areas you believe are unclear and require additional guidance? Please provide details.</p>	<p>We have identified in our comments above the areas where we consider that additional guidance is required.</p>
<p><i>Question 8:</i></p> <p>Are there any other significant public interest matters that you wish to raise? Please provide details.</p>	<p>There are no further issues that we wish to raise.</p>