

18 March 2022

Gillian Hawkesby  
New Zealand Regulation Leader  
Chartered Accountants Australia and New Zealand  
PO Box 11342  
Wellington 6142

Private Bag 115033  
Shortland Street  
Auckland 1140  
New Zealand

Phone: +64 9 303 0700  
Fax: +64 9 303 0701  
www.deloitte.co.nz

Email: [submission.feedback@charteredaccountantsanz.com](mailto:submission.feedback@charteredaccountantsanz.com)

Dear Gillian,

## Re: Exposure Draft ED2022-1: Proposed PS-1: Quality Management

We appreciate the opportunity to comment on Exposure Draft ED2022-1: *PS-1: Quality Management* (ED2022-1). We note ED2022-1 will apply to New Zealand resident members of Chartered Accountants Australia and New Zealand (CA ANZ) with effect from 15 December 2022.

Our response addresses the specific questions posed for Members as well as covering other matters that we have identified in the course of our review of the Exposure Draft.

### Response to Questions for Members

1. Do you consider that NZICA should instead implement ISQM 1 (and, in particular, require a formal risk assessment process) for all firms? If so, please explain.

No. While we consider the quality management framework prescribed in ISQM 1 is appropriate for a firm that performs assurance or related services engagements, we consider that same framework is not as applicable to the non-assurance parts of our practice or engagements that are less regulated and cover a broader range of services. As such, we consider that ISQM-1 should only apply to that part of our firm that performs assurance or related services.

We note that we are supportive of the proposed changes to PS-1.

2. Do you consider that NZICA should provide more prescriptive guidance on how firms should reconcile proposed PS-1 with PES-3? If so, please explain.

We do not consider that this is necessary. We support a more pragmatic, flexible standard that reflects the range of services provided by our firm and do not identify any need for prescriptive guidance reconciling the proposed PS-1 with PES-3.

Looking generally at the delivery of professional services by the non-assurance parts of a business, there is little evidence of any significant failures or material shortcomings within member firms from that part of their business that would justify a need to issue more prescriptive guidance. While guidance documents can in certain contexts 'flesh out' practical aspects that might be missing from a particular standard or assist in providing greater consistency in how it is applied, in the present case we consider the Exposure Draft is sufficiently clear for that not to be a relevant consideration. In fact, there is the danger that "guidance" could be confused with the actual standard and lead to issues of interpretation, particularly if there is any element of divergence between the guidance and the

standard, whether in tone or content. As the guidance would more likely be relied on by practitioners there is a risk that it could take on a similar, or greater, status than the standard itself.

3. Do you consider that NZICA should require firms to carry out a formal root cause analysis in respect to identified deficiencies? If so, please explain.

No, we consider that the requirement to carry out a formal root cause analysis could impose an unnecessarily onerous requirement on a firm. We do consider a firm's system of quality control (management) needs to be able to identify systemic issues to reduce the likelihood of their recurrence, however we consider there are alternatives to a formal root cause analysis that could still achieve that.

If NZRB decides not to require firms to carry out a formal root cause analysis in respect of identified deficiencies, then it could instead commit to conduct a post implementation review of PS-1 to assess whether the alternative methods it has been using are lessening the incidence of any deficiencies arising. If not, then the requirement for root cause analysis might be appropriate.

4. 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.

Yes, we are supportive of the inclusion of the additional requirements.

5. 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.

No

6. 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.

No.

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

We recommend that the NZRB amends the following wording and concepts in the Exposure Draft to provide greater clarity, as follows:

i) **R 4.1** (page 13) *"The Firm shall establish policies and procedures designed to promote an internal culture ..."*

We recommend that the words *"designed to promote"* are replaced with *"that specify how the firm will"* as we consider this will provide greater confidence that the policies and procedures that are put in place will achieve the outcome that is intended.

ii) Professional standards **R5.1** (page 15) *"The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, and its personnel and others, including the network, network firms, or service providers, as appropriate, comply with professional standards (including the code);"*

Similar to (i), we recommend that the words *"designed to promote"* and *"reasonable assurance"* are replaced so that R5.1 is reworded as follows:

*"The firm shall establish policies and procedures ~~designed to provide it with reasonable assurance~~ that require the firm, and its personnel and others, including the network, network firms, or service providers, as appropriate, to comply with professional standards (including the code);"*

iii) Acceptance and continuance of client relationships **R6.1** (page 16)

In relation to this Rule, we recommend removing the expression “*designed to provide the firm with reasonable assurance*” so that the policies are more closely aligned to the purpose for which they are being established, i.e. reword as follows:

*“The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to ~~provide the firm with reasonable assurance~~ ensure that it will:*

- a. *only undertake ... engagements where the firm is competent...” etc*

iv) **Resources R 7.1** (page 19)

This Rule currently requires that “*The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient and appropriate resources for use in the firm’s SOQM and in performance of engagements ...*”

We recommend that the policies and procedures specify how the firm is required to comply with the Standard rather than simply be aimed at giving the firm “reasonable assurance”.

v) **R19.1** (page 50) “*The engagement partner shall obtain and consider the results of the firm’s monitoring and remediation process ~~as evidenced in the latest information circulated by the firm and, if applicable, other network firms and~~ and determine whether deficiencies noted in that information may affect the engagement and take appropriate action.*”

As the words “latest information” have been struck out, it is unclear what the subsequent use of “that information” is referring to. We recommend replacing “that information” with “those results”, being the results of the firm’s monitoring and remediation process.

vi) **Glossary Nature of engagements**

The Exposure Draft is intended to apply to all non-assurance services and engagements performed by Firms. As drafted, there is an assumption that all non-assurance services and engagements result in the issuance of a report at the conclusion of the engagement. This is evidenced by the definitions in the Glossary of *Engagement partner*, *Engagement quality reviewer* and *Engagement report*. This is not correct, for example, some engagements relate to systems implementations or the provision of managed services, neither of which result in the issuance of a final report.

vii) **Glossary Professional activity** (page 53)

The definition of *Professional activity* in the Exposure Draft is “*An activity requiring accountancy or related skills undertaken by a Member including, accounting, auditing, tax, management consulting, and financial management.*” (emphasis added)

There is no definition of “related skills” however, given the diverse nature of services that larger multi-disciplinary firms such as ours provide, we recommend that the definition is revised to reflect the fact that many of the services that are provided do not “require” accountancy or “related” skills. Examples include outsourced managed services, tech design, creative services, IT implementation, analytics and other services that would fall outside the specifically listed “*accounting, auditing, tax, management consulting, and financial management*” services.

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

No.

If you wish to discuss and of our comments please do not hesitate to contact Andrew Babbage on 04 4703576.

Yours sincerely



**Mike Horne**  
Chief Executive



**Andrew Babbage**  
Risk and Reputation Leader

for Deloitte Limited (as trustee for the Deloitte Trading Trust)