

AG PES 1 (REVISED)
THE AUDITOR-GENERAL'S STATEMENT ON
PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)
CODE OF ETHICS FOR ASSURANCE PRACTITIONERS

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Scope of this Statement

1. This Auditor-General's Auditing Statement:
 - (a) establishes the Auditor-General's requirements in relation to *Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners* (PES 1 (Revised)); and
 - (b) provides additional guidance to reflect the public sector perspective.

Background

2. The Auditor-General has adopted aspects of PES 1 (Revised) and those aspects shall be applied to all annual audits and/or other work carried out on behalf of the Auditor-General.
3. The aspects of PES 1 (Revised) that do not apply to the Auditor-General are:
 - (a) paragraphs 290.500 to 290.514 (concerning reports that include a restriction on use and distribution) in respect of annual audits, performance audits and inquiries. Restrictions on use and distribution may apply to certain engagements carried out under section 17 of the Public Audit Act 2001, or in respect of certain other engagements carried out by private sector Audit Service Providers, on behalf of the Auditor-General; and
 - (b) section 291.
4. The following factors create the need to expand PES 1 (Revised) to specify additional requirements and guidance for all annual audits and/or other work carried out on behalf of the Auditor-General:
 - (a) the statutory independence of the Auditor-General;
 - (b) the wider public reporting role of the Auditor-General;
 - (c) the mandate of the Auditor-General, particularly as it relates to effectiveness and efficiency, compliance with statutory obligations, waste, and a lack of probity and/or financial prudence;
 - (d) the greater accountability responsibilities of public entities (when compared to entities in the private sector) that arise because public entities:
 - (i) are ultimately accountable to the general public; and
 - (ii) are, in most instances, established for the purpose of delivering public services; and
 - (e) the relationship between the Auditor-General, Audit Service Providers (ASPs), and Appointed Auditors.

5. Compliance with the aspects of PES 1 (Revised) identified in this Statement is mandatory for all assurance practitioners. Of particular relevance are the fundamental principles that express the basic tenets of ethical and professional behaviour and conduct. The fundamental principles, which assurance practitioners shall abide by at all times, are:
- (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

How to use this Statement

6. This Statement is aligned to PES 1 (Revised). To establish the relationship between PES 1 (Revised) and AG PES 1 (Revised), Appointed Auditors should refer to the table in Appendix 3. [Appendix 3](#) sets out the paragraphs of PES 1 (Revised) and specifies the Auditor-General's additional requirements or interpretations.

Application

7. Compliance with this Statement, as well as with aspects of PES 1 (Revised), is mandatory for the Auditor-General, the Deputy Auditor-General, their staff, and Appointed Auditors and their staff when carrying out annual audits and/or other work. The aspects of PES 1 (Revised) that do not apply to the Auditor-General are:
- (a) paragraphs 290.500 to 290.514 (concerning reports that include a restriction on use and distribution) in respect of annual audits, performance audits and inquiries. Restrictions on use and distribution may apply to certain engagements carried out under section 17 of the Public Audit Act 2001, or in respect of certain other engagements carried out by private sector Audit Service Providers, on behalf of the Auditor-General; and
 - (b) section 291.
8. The specific requirements, interpretations, and guidance in this Statement should be considered as additions to any professional standards that may be determined by any professional body for which the Auditor-General, the Deputy Auditor-General, their staff, and all Appointed Auditors and their staff may be members.
9. This Statement applies from 1 April 2017.

Definitions

10. For the purpose of this Auditor-General's Auditing Statement the defined terms have the meanings attributed:
- (a) in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board (the NZAuASB glossary) of the External Reporting Board (although where a term with a specific meaning in the New Zealand public sector differs from the NZAuASB glossary, the New Zealand public sector definition shall prevail);
 - (b) in the Definitions accompanying PES 1 (Revised);
 - (c) in the Auditor-General's Glossary of Terms; and
 - (d) in the list below.

Other work means performance audits, inquiries, other auditing services, assurance engagements (covered by paragraphs 53-60 in this Statement), and other engagements (covered by paragraphs 61-63 in this Statement) that may be carried out by staff of the Auditor-General or by an ASP.

Staff means, in addition to the definition of staff in the NZAuASB glossary, any person who has an employment contract or a contract for services with the Auditor-General

Specific requirements and guidance

Professional competence and due care

Technical competence

11. Technical competence is one aspect of the fundamental principle of professional competence and due care. The Auditor-General, the Deputy Auditor-General, their staff, and Appointed Auditors and their staff shall demonstrate technical competence that reflects their role when carrying out annual audits and/or other work on behalf of the Auditor-General and be responsive to the public sector environment.
12. The factors described in paragraph 4 lead to the requirement for a specific set of technical competencies that are required of the Auditor-General, the Deputy Auditor-General, their staff, and Appointed Auditors and their staff. The specific technical competencies are:

- (a) a clear understanding of the statutory mandate and role of the Auditor-General;
- (b) a clear understanding of the statutory obligations placed on public entities that specify their purpose, the way in which they are to be managed, and their accountability requirements;
- (c) an understanding of general issues of management and governance in the public sector that is sufficient to identify issues of effectiveness and efficiency, waste, and a lack of probity and/or financial prudence when they are encountered;
- (d) a capacity to adapt audit planning to the risks that result from the differing nature and purposes of public entities;
- (e) such specialist skills as are required to form an opinion on performance information reported by a public entity (where necessary), or the ability to identify whether and which specialist skills are required; and
- (f) the ability to report completely, but succinctly, on audit issues, audit results, and the state of the public entity.

Behavioural competence

13. Behavioural competence is one aspect of the fundamental principle of professional competence and due care. The behavioural competencies below flow on from the factors described in paragraph 4 that characterise the public sector audit environment. They primarily relate to managing the Appointed Auditor's relationships with the Office of the Auditor-General (OAG) and with the public entity.
14. Those performing audits and other work on behalf of the Auditor-General shall:
- (a) identify themselves with the Auditor-General, and the Auditor-General's statutory role and independence, in any communications with a public entity, Parliament, or other key groups in the public sector; and
 - (b) understand the Auditor-General's interest as the statutory auditor of all public entities in being kept informed of matters of:
 - (i) effectiveness and efficiency;
 - (ii) non-compliance with statutory obligations;
 - (iii) waste;
 - (iv) a lack of probity;
 - (v) a lack of financial prudence; and
 - (vi) other sensitive matters or issues.
15. The Auditor-General has wide powers under the Public Audit Act 2001 to request information. Some of these powers are delegated to his staff and to Appointed

Auditors and their staff. . These powers shall be exercised judiciously, especially in respect of sensitive or confidential information.

Confidentiality

General requirements

16. All information obtained while carrying out annual audits and/or other work on behalf of the Auditor-General is confidential and the property of the Auditor-General. No such information shall be disclosed outside the provisions of these standards without the written approval of the OAG.
17. The information contained in evidential working papers, associated files or documents, and management reports is the property of the Auditor-General. The Auditor-General, the Deputy Auditor-General, their staff, and Appointed Auditors and their staff shall take all reasonable steps to ensure the security and protection of this information from unauthorised release, damage, malicious tampering, or alteration.
18. The Auditor-General, the Deputy Auditor-General, their staff, and Appointed Auditors and their staff shall note that their activities in collecting personal information about individuals, and the use of that information, are subject to the Privacy Act 1993.

Procedures for Appointed Auditors in relation to contact with the news media

19. Appointed Auditors may provide factual background or technical information to the news media about annual audits and/or other work they are carrying out, or have carried out, on the Auditor-General's behalf. However, Appointed Auditors should not otherwise speak on behalf of the Auditor-General to the news media, unless specifically authorised to do so. In practice, Appointed Auditors should refer general media queries to OAG media staff and tell the media staff when they have been in contact with the news media as soon as it is practicable.

Procedures for Appointed Auditors in relation to public meetings

20. Appointed Auditors shall not address or otherwise report to public meetings on annual audits and/or other work they are carrying out, or have carried out, on behalf of the Auditor-General, except:
 - (a) with the direct authority of the OAG; or

- (b) in the case of the auditors of entities with public annual general meetings, such as local authorities and school boards of trustees, as specified by the OAG.
21. It is recognised that an Appointed Auditor in attending a public meeting may be requested to make comment. In this situation, even though the Chairperson may have been made aware of the Appointed Auditor's obligations to the Auditor-General, it may be difficult for the Appointed Auditor not to respond. Accordingly, the Appointed Auditor shall take the following measures:
- (a) Before the meeting the Appointed Auditor:
 - (i) shall develop a list of questions that are likely to be asked, and determine those that they can answer and those that should be referred to management or those charged with governance;
 - (ii) may consult with the OAG; and
 - (iii) shall ensure that any questions that the Appointed Auditor is not in a position to answer are referred to management or to those charged with governance.
 - (b) During the meeting, if the Appointed Auditor cannot avoid answering a question then they shall keep to the facts and professional opinions formed during the annual audit.

Misuse of information

22. The private use of information obtained during audits and/or other work carried out on behalf of the Auditor-General is prohibited.

The independence of the Auditor-General – introductory comments

23. A cornerstone of the role of the Auditor-General is independence, which is essential for any audit agency to function effectively. Any breach of PES 1 (Revised) or AG PES 1 (Revised) that may compromise the actual or perceived independence of the Auditor-General will be treated as a serious breach of the Auditor-General's code of conduct that applies to staff of the Auditor-General or, if applicable, the audit contract.
24. The independence of the Auditor-General is underpinned by a number of legislative provisions:
- (a) statutory appointment of the Auditor-General as an officer of Parliament, which guarantees, in particular, independence from the executive and public entities;

- (b) the requirement in section 9 of the Public Audit Act 2001 for the Auditor-General and the Deputy Auditor-General (and, by extension, staff of the Auditor-General and ASPs) to act independently in the exercise and performance of the Auditor-General's functions, duties, and powers; and
 - (c) statutory freedom to report when, how, and to whom the Auditor-General thinks fit.
25. Specific limitations are placed on staff of the Auditor-General, Appointed Auditors and ASPs in this Statement to ensure that they meet the stricter independence standards of the Auditor-General and to protect the independence of the Auditor-General.

Overall requirements – independence

26. AG PES 1 (Revised) has been structured to provide further requirements and guidance on how the conceptual framework approach to independence, as outlined in PES-1 (Revised), should be applied in the context of any work on behalf of the Auditor-General. The requirements and guidance is provided in the following sections of AG PES 1 (Revised):
- (a) threats to independence and safeguards;
 - (b) carrying out other work engagements; and
 - (c) reporting on engagements other than the annual audit.
27. Further guidance on the application of the conceptual framework approach to independence to specific situations involving public entities is provided in Appendices 1 and 2, as follows:
- (a) [Appendix 1](#) is a decision tree summarising the factors that ASPs shall consider in determining whether to carry out engagements (other than the annual audit, performance audits, and inquiries).
 - (b) [Appendix 2](#) expands on how the guidance in PES 1 (Revised) is to be applied to specific situations involving public entities. Appendix 2 also includes examples of independence situations previously encountered by the OAG, and how those situations were resolved.

Definition of independence

28. Under PES 1 (Revised), independence requires:
- (a) *Independence of mind* – The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.

- (b) *Independence in appearance* – The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s or a member of the audit or review team’s integrity, objectivity, or professional scepticism has been compromised.
29. This Statement requires the Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff to apply a more stringent test than that set down in PES 1 (Revised) when assessing their independence in appearance. They shall assess whether there are any facts and circumstances that might cause a reasonable third party, informed only by publicly available information, to conclude that some aspect of independence has been, or may be, compromised.
30. The Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff shall ensure that, for any work carried out on behalf of the Auditor-General, they are both independent and seen to be independent. The perception of independence (independence in appearance) is a vital component of independence that the Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff shall take into account when assessing their independence. Such an assessment requires consideration of how a particular situation would “look” from the perspective of a reasonable third party informed with publicly available information.
31. Further to the matters raised in paragraph 29 above, the Auditor-General is concerned that the definition of independence in appearance in PES 1 (Revised) is not appropriate to the public sector in two main respects (as detailed below). The Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff are required to take account of these matters in the following ways when assessing their independence in appearance:
- (a) The inclusion of the highly subjective term “so significant” does not establish a sufficiently high or rigorous threshold to ensure that independence in appearance is maintained. Those applying the “so significant” test are required to discount all facts or circumstances unless they meet a level of significance that exceeds “normal” significance. This interpretation can be taken from the term “so significant”. The Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff are required to take account of all facts and circumstances in assessing independence in appearance – irrespective of whether the facts or circumstances meet the “so significant” criterion.
- (b) The definition of independence in appearance also requires that a reasonable and informed third party “would be likely to conclude” that integrity, objectivity,

or professional scepticism has been compromised. The “would be likely to conclude” test is a relatively low standard in that the facts and circumstances must be persuasive before those applying the test would conclude that independence in appearance had been impaired. The Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff are required to take account of all facts and circumstances that *might* lead a reasonable third party informed with publically available information to conclude a firm’s – or a member of the audit or review team’s – integrity, objectivity, or professional scepticism had been compromised.

32. In making their assessment, staff of the Auditor-General and ASPs are reminded of the requirement in paragraphs 38 and 39 below to consult with the OAG when uncertainty exists about an independence matter.

Threats to independence and safeguards

Application of the threats and safeguards approach to the Auditor-General

33. PES 1 (Revised) establishes the conceptual framework approach to independence. This approach requires the auditor to identify and maintain an ongoing awareness of existing and potential threats to independence. Where the threat is other than clearly insignificant, the auditor shall apply safeguards to eliminate or reduce the threat to an acceptable level. The conceptual framework approach to independence detailed in PES 1 (Revised) is applicable to the Auditor-General, subject to the reservations noted in paragraphs 34 and 35 below.
34. The Auditor-General is the auditor of all public entities. Unlike auditors in the private sector, the Auditor-General cannot refuse to accept or continue an annual audit to eliminate threats to independence. This situation is recognised in PES 1 (Revised), which states: “This Code is not intended to detract from responsibilities which may be imposed by law or regulation”.
35. In a conflict between PES 1 (Revised) and legislation relating to the statutory appointment of the Auditor-General, the following steps shall be taken:
- (a) The threat to independence will be disclosed to those responsible for governance of the public entity and publicly disclosed in the auditor’s report.
 - (b) Safeguards will be introduced, which may include the selection of the ASP and/or the Appointed Auditor, the terms and conditions of their appointment, the assignment of audit staff, and other quality control processes to minimise the threat to independence.

Application of the threats and safeguards approach to specific situations

36. Appendix 2 expands on how the guidance in PES 1 (Revised) shall be applied to specific situations involving public entities. Appendix 2 also includes examples of independence situations previously encountered by the OAG, and how those situations were resolved.

System of quality control to ensure compliance with independence requirements

37. The OAG and ASPs shall establish policies and procedures designed to provide reasonable assurance that the independence requirements of the Auditor-General have been complied with. Typically, the system of quality control should include the following aspects:
- (a) All staff of the Auditor-General and the Deputy Auditor-General shall be made aware of the Auditor-General's policies and procedures on independence, including the relevant aspects of this Statement.
 - (b) ASPs shall make Appointed Auditors and staff aware of the ASP's policies and procedures on independence, including the relevant aspects of this Statement.
 - (c) Written confirmation shall be obtained from all staff required to be independent that they have complied with this Statement and any other policies and procedures on independence. The written confirmation shall be obtained at least annually.
 - (d) For each annual audit, performance audit, inquiry, and/or engagement on behalf of the Auditor-General, Appointed Auditors and staff shall, where applicable, form and document a conclusion on compliance with the requirements of this Statement and any other policies and procedures on independence.
 - (e) ASPs and/or Appointed Auditors will immediately advise the Assistant Auditor-General – Accounting and Auditing Policy at the OAG if there has been a breach of the independence requirements of AG PES 1 (Revised), or if they have reason to believe that a breach may arise in the future.

Requirement to consult the OAG where there is uncertainty about an independence matter

38. Where staff of the Auditor-General or an ASP believe there is a possibility that an existing or potential situation could result in a threat to independence that is other than clearly insignificant, the fact shall be disclosed to the OAG. The OAG will determine how the threat to independence is to be resolved.

39. The nature of the public sector is such that a matter that would not normally threaten independence in the private sector could result in an unacceptable threat to independence in the public sector environment. Staff of the Auditor-General or ASPs are therefore advised to consult with the OAG whenever there is any uncertainty about whether a matter could result in a threat to independence.

Where public entity management attempts to limit the scope of the annual audit, performance audit, inquiry, and/or engagement

40. Staff of the Auditor-General and Appointed Auditors shall ensure that the annual audit, performance audit, inquiry, and/or engagement on behalf of the Auditor-General is conducted free from intervention or influence by the public entity's management. Attempts to restrict audit scope through:
- (a) hindering access to personnel or information; or
 - (b) applying undue management influence over the nature, timing, extent, or cost of professionally supportable and appropriate procedures;
- shall be reported to the OAG and the appropriate level of management and/or those charged with governance. If these restrictions are significant, a modification of the audit opinion or other forms of public reporting may be considered.

Carrying out other work engagements

Overriding principles governing other work engagements

41. The requirements and guidance given below on carrying out other work engagements is based on the following general considerations:
- (a) Public and Parliamentary perception of the Auditor-General's independence is of paramount importance.
 - (b) There are statutory limitations to the Auditor-General's ability to carry out non-audit-related work, but these limitations do not necessarily exist for some of the Auditor-General's agents.
 - (c) The capacity of the Auditor-General to contribute to improvements in financial management in the public sector may be enhanced by the application of the additional skills that may be available to the Auditor-General's agents.
 - (d) Other work can help either add assurance about, or support improvements in, financial management behaviour in the public sector.
42. The overriding principles set out below have been developed taking these sometimes overlapping considerations into account. The Auditor-General believes that these reflect the best balance between the effective and efficient delivery of annual audits,

performance audits, and inquiries, and the sometimes competing interests of Parliament and the public, and public entities.

43. Other work may be entered into with the public entity. However, each potential other work engagement shall be evaluated to ensure that the Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff will not be:
- (a) departing from the definition of independence in paragraphs 28 to 32 of this Statement;
 - (b) departing from the conceptual framework approach to independence and associated guidance set out in PES 1 (Revised);
 - (c) involved in decision-making that should be undertaken by management or the owner of the public entity (a “self review” and/or “advocacy” threat to independence);
 - (d) involved in both performing and auditing the same work (a “self-review” threat to independence); or
 - (e) impairing the independence of either the ASP or the Auditor-General. For example, a threat to the independence of the Auditor-General could arise where carrying out an other work engagement for a public entity may conflict with the Auditor-General’s wider responsibility to Parliament.
44. To protect these overriding principles, the Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff shall comply with:
- (a) the aspects of PES 1 (Revised) incorporated within this Statement;
 - (b) AG PES 1 (Revised); and
 - (c) any specific directions from the OAG on independence matters.

Uncertainty whether other work is consistent with the definition of independence and/or the overriding principles

45. Where staff of the Auditor-General or an ASP believes that there is a possibility that an other work engagement may be inconsistent with the definition of independence in paragraphs 28 to 32 and/or the overriding principles in paragraph 43, they shall disclose the possibility to, and consult with, the OAG before commencing any other work engagement.
46. Where staff of the Auditor-General or an ASP consults the OAG, the following information shall be provided:
- (a) the nature and scope of the proposed other work engagement;
 - (b) details of any fee arrangement (including the value of “free or preparatory” services provided) for the other work engagement;

- (c) the staff of the Auditor-General or ASP staff involved in the other work engagement and their professional relationship to the Appointed Auditor;
- (d) the anticipated timing of commencement and completion of the other work engagement; and
- (e) indications of the anticipated benefit and/or impact that the other work engagement could have for the public entity.

Other work of possible media or political interest, or of a sensitive nature

47. Staff of the Auditor-General or ASPs shall consult the relevant OAG sector manager before accepting or finalising any terms of reference for any other work engagement where there is possible media or political interest in the subject matter of the engagement, or where the matter is generally of a sensitive nature or relates to another core interest of the Auditor-General (such as a matter of compliance with statutory obligations, effectiveness and efficiency, waste, or a lack of probity and/or financial prudence that affects the management or those charged with governance). Consultation may include discussing whether:
- (a) the engagement should be accepted in the first instance and, if so, the most appropriate party to conduct the engagement;
 - (b) the terms of reference are complete and all key matters or areas have been included within the scope of the engagement; and/or
 - (c) the engagement letter (which specifies the terms of the engagement) includes any unreasonable restrictions on distribution of the report arising from the engagement.
48. It is important that, before accepting such an engagement, proper consideration is given to any political risks, the wider interests of the Auditor-General, and any implications for the wider public sector. This may include consideration of the following matters:
- (a) Has the entity been involved in any political or public controversy, or does it operate in a politically sensitive environment?
 - (b) Are there other agencies or institutions already involved (for example, a central agency, a select committee, or a regulator)?
 - (c) Could the work have implications for other entities in the public sector (for example, if a probity matter concerns a board member who is also a director of other entities in the public sector)?
 - (d) Is the entity subject to organisational, legislative, or other change?
 - (e) Has the Auditor-General carried out any previous work in relation to this entity (for example, an enquiry into probity issues), or on the subject matter of the assignment (for example, a special study of consultation procedures)?

- (f) Has any performance audit or special study been signalled by the Auditor-General?
 - (g) How does the entity intend making use of any report arising from the engagement?
 - (h) Is the report likely to be used in the context of any legal or other dispute the entity has with other parties?
49. Where there is possible media or political interest in the subject matter of the engagement, or the matter is generally of a sensitive nature, a copy of the draft report shall be provided to the relevant OAG sector manager for clearance before it is sent to the public entity. Once the final report is signed, a copy shall be sent to the OAG within 24 hours.
50. An example of an engagement referred to the OAG under paragraph 47 above related to a request from an entity wanting to conduct due diligence for the possible purchase of assets from a public entity that was audited by an ASP on behalf of the Auditor-General. What made this example unusual was that the request came from an entity that was neither a public entity nor subject to audit by the ASP that had been approached to do the work. The acceptance of this engagement by the ASP would have impaired the independence of the ASP and the Auditor-General.

The Auditor-General has a statutory responsibility to act independently. It is therefore essential that the Auditor-General remains totally independent – in both fact and appearance. This responsibility extends not only to the owners of a particular public entity subject to audit by the ASP but ultimately to the New Zealand public.

Acceptance of the due diligence engagement would have compromised the Auditor-General's independence because the ASP (and, by implication, the Auditor-General) would have been perceived to have conflicting responsibilities – first, as the auditor of the public entity, and secondly, as an advisor to a third party transacting with the public entity. Such a conflict would have been damaging to the independence of the ASP and the Auditor-General, and would have compromised the objectivity of the Auditor-General had they been requested to investigate any issues surrounding the transaction at a later date.

No safeguards applied by the ASP would have reduced the threat to independence to an acceptable level, despite the fact that the due diligence engagement would have been carried out by ASP staff who had no association with the annual audit. Such a safeguard would not have been enough to overcome the perception that independence had been impaired in this instance.

The appropriateness of the ASP accepting the due diligence engagement was considered by reference to paragraphs 47 and 48 of AG PES 1 (Revised) – relating to engagements of possible media or political interest or of a sensitive nature. Although these requirements were primarily written for engagements with the entity for which an annual audit appointment has been made, paragraphs 47 and 48 do not preclude consideration of engagements with other entities that might adversely affect the independence of the Auditor-General.

Requirements for staff of the Auditor-General or ASPs carrying out specific types of other work engagements

51. For the purposes of this Statement, the range of possible other work engagements that staff of the Auditor-General or an ASP may be requested to carry out are categorised as follows:
- (a) prohibited engagements (refer to paragraph 52);
 - (b) assurance engagements, divided between:
 - (i) reporting engagements to a third party that rely, in part or in total, on the evidence gained from the conduct of the annual audit (refer to paragraphs 53 to 59); and
 - (ii) other assurance engagements (refer to paragraph 60); and
 - (c) other engagements (refer to paragraphs 61 to 63).

Prohibited engagements

52. The following types of engagements are prohibited:
- (a) Liquidations and receiverships: Carrying out liquidations and receiverships of the public entity or its subsidiaries or other controlled entities.
 - (b) Assistance to management in provision of valuation services: Providing valuation services to public entities that result in the product of the valuation giving rise to asset or liability measurement in the Statement of Financial Position. This prohibition does not extend to the giving of routine advice or discussion, or work of a confirmatory nature, on the adequacy of provisions or the valuation of assets or liabilities that are determined by the governing body of the public entity. Further guidance is provided in paragraphs K1 and K2 of [Appendix 2](#).

- (c) Participation in the annual audit of a public entity after having had recent service with that public entity: The Auditor-General, the Deputy Auditor-General, their staff, Appointed Auditors, and ASPs and their staff cannot participate in the annual audit of a public entity (or any other reporting engagement in connection with a public entity) within two years of the cessation of that individual's previous service as an officer, director, or employee with that public entity.
- (d) Participation in the audit within two years of placement as a temporary employee: Taking part in the annual audit, performance audit, inquiry, and/or engagement carried out on behalf of the Auditor-General during a period of temporary placement, or under contract as an employee in a public entity, or at any time for two years after the placement has ceased.
- (e) Roles that involve decision-making that should be carried out by management or the owner: Assuming a role that involves staff of the Auditor-General or an ASP assuming responsibility (whether explicitly or implicitly) for decisions that are properly the role of management.
- (i) For example, no staff of the Auditor-General or ASP shall be a member of the governing body or in any other way participate in the direction and control of the public entity. Specifically, staff of the Auditor-General or the ASP shall not take responsibility for the financial statements of the public entity or accept a role of internal auditor. However, staff of the Auditor-General or ASPs may provide accounting assistance and support to an internal audit function in keeping with the specific guidance in this Statement.
- (ii) Another example is a request to staff of the Auditor-General or an ASP to carry out an engagement by a public entity that requires the staff of the Auditor-General or ASP to recommend a preferred option, and where public entity management is reliant on the staff of the Auditor-General or ASP expertise and specialist knowledge. This situation effectively makes the staff of the Auditor-General or ASP a “de-facto” decision-maker, in that the staff of the Auditor-General or ASP is closely associated with a decision that should be made by the management or the owner of the public entity.
- (iii) A further example is when a public entity asks the staff of the Auditor-General or ASP to provide routine and ongoing advice on accounting and financial management matters. Such advice might not threaten independence if it is given in response to a specific matter at a point in time. If, however, the advice is ongoing, public entity management will rely on the advice – possibly to the extent that the staff of the Auditor-

General or ASP in effect assume a management role. The threat to independence is heightened when public entity management has a limited understanding of accounting and financial management matters.

- (f) Taxation advice: Giving tax advice to the public entity or parties acting on their behalf that:
- (i) involves, or could involve, tax evasion or a tax avoidance arrangement, as determined by the applicable law; or
 - (ii) is not in keeping with published Inland Revenue Department policy.
- (g) Taxation services: Staff of the Auditor-General or ASPs cannot carry out engagements involving the computation of income tax or other tax liabilities (or assets) for the purposes of a public entity's financial statements or its returns to the Inland Revenue Department. Such engagements violate the overriding principles in paragraph 43, and a number of the prohibitions in paragraph 52 above, relating to:
- (i) performing and auditing the same work;
 - (ii) being involved in decision-making that should be carried out by management or the owner of the public entity; and
 - (iii) assisting management in providing valuation services.
- Further guidance is provided in paragraphs L1 to L10 of [Appendix 2](#). Staff of the Auditor-General or ASPs may provide taxation services that are of an assurance nature, such as reviewing tax computations and returns before filing.
- (h) Provision of information technology systems services to public entities: Staff of the Auditor-General or ASPs cannot carry out engagements involving the design and/or implementation of information technology systems used by public entities. Further guidance is provided in paragraphs N1 to N3 of [Appendix 2](#).
- (i) Provision of litigation support services to public entities: Staff of the Auditor-General or ASPs cannot carry out engagements involving the provision of litigation support services to public entities. Further guidance is provided in paragraphs O1 to O3 of [Appendix 2](#).
- (j) Provision of legal services to public entities: Staff of the Auditor-General or ASPs cannot carry out engagements involving the provision of legal services to public entities.

- (k) Fees and pricing: The setting of contingent or success fees in respect of any service provided by staff of the Auditor-General or an ASP to a public entity is not permitted.

Assurance engagements

- 53. For the purposes of this Statement, an “assurance engagement” is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the evaluation or measurement of a subject matter against criteria. The fact that an engagement may provide comfort to public entity management, contribute to audit assurance, or provide a general feeling of confidence about a particular matter does not in itself result in the engagement being classified as an “assurance engagement”. An engagement shall satisfy the above criteria before it can be classified as an “assurance engagement”.
- 54. Staff of the Auditor-General or ASPs shall obtain the approval of the OAG before accepting a reporting engagement to a third party, unless otherwise provided in an audit brief or other dispensation.
- 55. Subject to obtaining OAG approval, staff of the Auditor-General or ASPs may carry out reporting engagements to third parties other than the annual audit, with no limit on fees earned during the contract period.
- 56. Certain assurance engagements require the staff of the Auditor-General or ASP to report to a third party and rely, in part or in total, on the evidence obtained from the audit. Where approved by the OAG, these engagements shall be performed and reported “on behalf of the Auditor-General”. This category of engagement includes:
 - (a) prospectus opinions;
 - (b) reports to trustees on an entity’s compliance with the terms of a trust deed;
 - (c) reports to the Commerce Commission relating to entities in “regulated industries”; and
 - (d) audit opinions on “alternative” financial statements prepared by a public entity (for example, Economic Value Added (EVA) financial statements).
- 57. To obtain approval, staff of the Auditor-General or ASPs shall provide the following information to the Assistant Auditor-General – Accounting and Auditing Policy:
 - (a) full details of the nature of the engagement (supported by relevant documents such as Trust Deeds, as appropriate); and
 - (b) the proposed wording of the report to the third party.

58. The decision of the OAG as to whether the engagement can be accepted will be advised (promptly, in writing) to the staff of the Auditor-General or ASP, after careful consideration of the documentation provided in accordance with paragraph 57.
59. Staff of the Auditor-General or ASPs shall consult the OAG if they are unsure whether a particular reporting engagement to a third party is to be signed “on behalf of the Auditor-General”.
60. Within the general rules of conduct stated above, staff of the Auditor-General or ASPs may carry out other assurance engagements other than the annual audit, with no limit on fees earned during the contract period.

Other engagements

61. Within the general rules of conduct stated above, staff of the Auditor-General or ASPs may carry out other types of consulting or service engagement during the financial year of the entity subject to annual audit, earning up to 100% of the audit fee set for that financial year (the fee-cap).
62. Staff of the Auditor-General or ASPs sometimes enter into consulting or service engagements with third parties where the subject matter of the engagement may, in part or in total, relate to a public entity that the staff of the Auditor-General or ASP audit on behalf of the Auditor-General. The fees corresponding to the portion of the engagement that relate to the public entity shall be taken into account by the Appointed Auditor in determining the total fees for fee-cap purposes. The OAG reserves the right to determine if the fee-cap has been exceeded.
63. OAG approval to exceed the fee-cap will be granted only in certain limited circumstances. In granting an exemption to exceed the fee-cap, the OAG will have regard to the following factors:
 - (a) whether the total fees from other engagements over the contract period will be less than the aggregate audit fee over the contract period;
 - (b) the amount by which the fee-cap will be exceeded in any one year;
 - (c) whether the timing of the other engagement around the public entity’s balance date is the main cause of the fee-cap being exceeded – for example, if a public entity with a 30 June balance date requested staff of the Auditor-General or an ASP to start an other engagement in June (and this would result in the fee-cap being exceeded for the year ended 30 June), this may provide grounds for a fee-cap exemption being granted if starting the other

- engagement in July (when the next year subject to the fee-cap began) would cause the public entity significant inconvenience; and
- (d) whether the other work is of such a nature that granting an exemption to the fee-cap would enhance public sector accountability generally.

Requirements to issue engagement letters for all other work engagements

64. An engagement letter shall be issued in relation to each other work engagement. There are separate requirements for formalising the terms of annual and performance audits and inquiries. The engagement letter shall specify whether the engagement is carried out on behalf of the Auditor-General.
65. Each engagement letter shall include wording that clearly communicates to management and those charged with governance that:
- (a) the results of the work will be made available to the OAG; and
- (b) any matters identified will be brought to the attention of the Auditor-General, who is free to report as they see fit.
66. There will often be important differences between the staff of the Auditor-General or ASP's responsibilities for carrying out other engagements and the annual audit. The staff of the Auditor-General or ASP shall ensure that management and those charged with governance are aware of the different objectives and reporting requirements of each engagement. The staff of the Auditor-General or ASP shall also be satisfied that the Auditor-General's independence will not be threatened.

Figure 1

Category of engagement	Nature of the engagement letter	Nature of the report
Reporting engagement to a third party where that engagement relies, in part or in total, on evidence gained from the conduct of the annual audit (paragraphs 54 to 59).	The engagement letter is to state that the engagement is to be performed by the staff of the Auditor-General or ASP "On behalf of the Auditor-General".	The report is to be signed by the staff of the Auditor-General or ASP "On behalf of the Auditor-General".
Other assurance engagements (paragraph 60) and other engagements (paragraphs 61 to 63) where the engagement is carried out by an ASP.	The engagement letter is to state that the engagement is to be performed in the name of the ASP.	The report is to be signed in the name of the ASP.

67. With reference to the "assurance" and "other" category of engagement referred to in paragraph 51, the guidelines in figure 1 are to apply – unless otherwise provided in an

audit brief or other dispensation – for the issue of the engagement letter and the report arising from carrying out the engagement.

Reporting on engagements other than the annual audit

Requirements to report publicly on engagements other than the annual audit

68. There are two situations in which public disclosure about engagements other than the annual audit may be required:
- (a) where legislation or a financial reporting standard requires disclosure in the financial statements of the fees paid for the annual audit and for other services; and
 - (b) where ISA (NZ) 700: *Forming an Opinion and Reporting on Financial Statements* requires disclosure of other services provided in the audit report.
69. Appointed Auditors may wish to distinguish between “assurance” and “other” engagements in the audit report. For more detailed guidance on this disclosure, Appointed Auditors should refer to AG ISA (NZ) 700.

Requirements to report to the OAG

All performance audits, inquiries, and other work engagements (other than the annual audit)

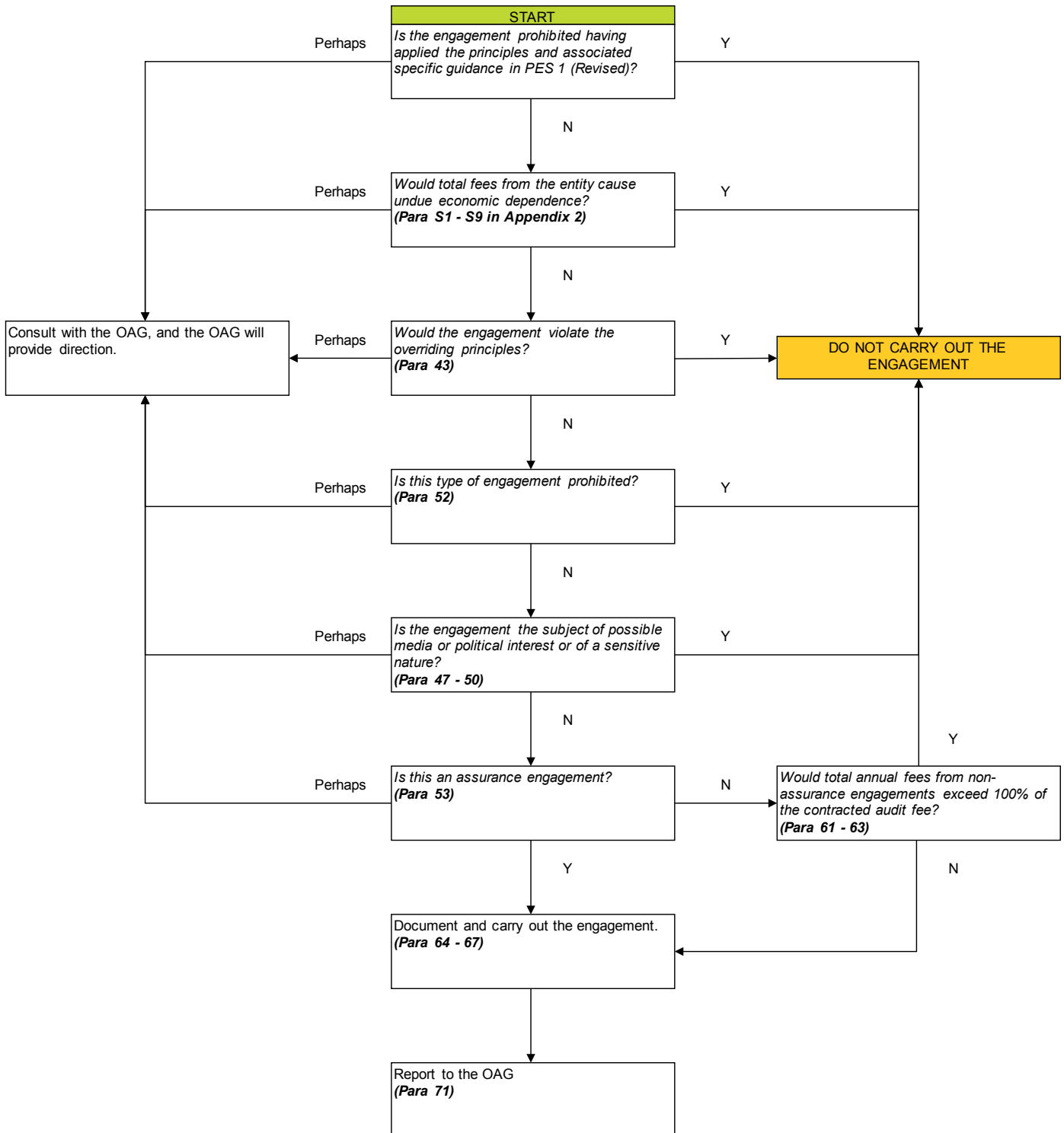
70. For all performance audits, inquiries, and other work engagements carried out by staff of the Auditor-General or an ASP in addition to the annual audit, Appointed Auditors shall advise the OAG in writing, as part of the “reporting on engagements other than the annual audit” requirements in AG-1: *Reporting to the OAG*, details of all engagements between the public entity and the ASP or staff.
71. For each engagement, Appointed Auditors shall send the following information to the OAG as part of the requirement to “report on engagements other than the annual audit”:
- (a) a copy of the report issued for the engagement;
 - (b) if applicable, a copy of the information on which the report has been issued;
 - (c) a description of the engagement;
 - (d) the name of the engagement partner or director;
 - (e) the actual fee for the engagement for the period covered by the annual audit;
 - (f) whether the report was signed on behalf of the Auditor-General; and
 - (g) whether the engagement was an assurance engagement (based on the definition of an assurance engagement in paragraph 53).

72. Where the total fees for all engagements during the reporting period differ from those disclosed in the financial statements, a reconciliation shall accompany the information provided under paragraph 71 above to show the reason for the difference.

Engagements of possible media or political interest or of a sensitive nature

73. For engagements (referred to in paragraphs 47 to 50 above) where there is possible media or political interest in the subject matter of the engagement, or the matter is generally of a sensitive nature, a copy of the draft report shall be provided to the relevant OAG sector manager for clearance before it is sent to the entity. A copy of the final report shall be sent to the OAG within 24 hours of signing the report.

Appendix 1 - Decision tree for entering into engagements with public entities (other than the annual audit, performance audits, and inquiries)



Appendix 2 – Guidelines on the application of the approach in PES 1 (Revised) to public entities

This appendix contains guidance covering the following topics:

- A [Financial interests](#)
- B [Loans and guarantees](#)
- C [Business relationships](#)
- D [Family and personal relationships](#)
- E [Employment with public entities](#)
- F [Temporary staff assignments](#)
- G [Recent service with a public entity](#)
- H [Serving as an officer or member of the governing body of a public entity](#)
- I [Long association of senior personnel involved in annual audits of public entities](#)
- J [Preparing accounting records and financial and performance information](#)
- K [Valuation services](#)
- L [Provision of taxation advice and/or services to public entities](#)
- M [Internal audit services](#)
- N [IT systems services](#)
- O [Litigation support services](#)
- P [Legal services](#)
- Q [Recruiting services](#)
- R [Corporate finance services](#)
- S [Fees](#)
- T [Compensation and evaluation policies](#)
- U [Gifts and hospitality](#)
- V [Actual or threatened litigation](#)

A Financial interests

- A1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where an existing or potential financial interest may create a threat to independence. Further guidance on financial interests in public entities is provided below.
- A2. For the purposes of these standards the definition of audit team (or its public sector equivalent) is specified in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.
- A3. The Auditor-General and the Deputy Auditor-General may not have a financial interest in any public entity.

Employees of the Auditor-General

- A4. The following employees of the Auditor-General may not have a financial interest in any public entity:
- (a) members of the OAG Leadership team;
 - (b) members of the Audit NZ Leadership team;
 - (c) members of the OAG Accounting and Auditing Policy team;
 - (d) members of the OAG Legal team;
 - (e) Sector Managers in the OAG Local Government and Parliamentary teams;
and
 - (f) employees of the OAG and Audit NZ who are involved in the audit of the financial statements of the government.
- A5. Audit New Zealand directors and members of Audit New Zealand's Professional Practices Group may not have a financial interest in:
- (a) any public entity audited by Audit New Zealand; or
 - (b) any public entities that are part of a public entity group where Audit New Zealand audits a significant entity in the group.
- A6. All other employees of the Auditor-General:
- (a) may have a financial interest in a public entity;
 - (b) must disclose their interest as part of the employee independence system, so that any independence threats can be managed; and
 - (c) must not work on any matter involving a public entity or group where they have a financial interest.

ASPs (other than Audit New Zealand) and the ASPs' Appointed Auditors and Audit Teams

- A7. Where an ASP audits an entity on behalf of the Auditor-General, all engagement partners of the ASP and members of the audit team may not have a financial interest in that entity.

Immediate Family Members

- A8. If an immediate family member (that is, a spouse (or equivalent) or dependent of an individual referred to in paragraphs A3 to A7 above) has a financial interest in a public entity then the financial interest must be disclosed, in accordance with the Auditor-

General's, Audit New Zealand's, or other ASP's independence policies and procedures that are required by PES 3 (Amended): *Quality Control*.

- A9. Upon disclosure of a financial interest held by an immediate family member the threat to independence must be managed by:
- (a) disposing of the financial interest; or
 - (b) removing the individual referred to in paragraphs A3 to A7 from the audit team, or from doing any other work involving the public entity in which the immediate family member has a financial interest.

General provisions

- A10. If financial interests are acquired involuntarily (for example, in a share give-away by an energy company):
- (a) the financial interest shall be disclosed, in accordance with the Auditor-General's, Audit New Zealand's, or other ASP's independence policies and procedures that are required by PES 3 (Amended): *Quality Control*; and
 - (b) the threat to independence must be managed by:
 - (i) disposing of the financial interest at the earliest opportunity at which there can be no suggestion of insider trading; or
 - (i) removing the individual referred to in paragraphs A3 to A7 from the audit team, or from doing any other work involving the public entity in which they have a financial interest.
- A11. Paragraphs A3 to A10 do not apply to public securities, as defined in the Public Finance Act 1989.
- A12. Paragraphs A3 to A10 cease to apply when the Auditor-General is no longer the auditor of an entity, and when all risks of insider trading have disappeared (for example, following listing of shares on the Stock Exchange).

B Loans and guarantees

- B1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where an existing or potential loan or guarantee may create a threat to independence.

C *Business relationships*

- C1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where a business relationship with a public entity may create a threat to independence.

D *Family and personal relationships*

- D1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where an existing or potential family or personal relationship may create a threat to independence.
- D2. In the public sector, it is important that the Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff remain aware of the effect of existing or potential political affiliations on audit independence. Such awareness should also extend to comment on political issues made by staff of the Auditor-General or ASPs.
- D3. Staff of the Auditor-General or ASPs shall not be, nor seek to be, either an officer of, or a candidate for, any political party seeking election to Parliament.
- D4. Where staff of the Auditor-General or the ASP wish to seek election or accept an appointment to any local authority, board, or other governing body that is audited by staff of the Auditor-General or the ASP on behalf of the Auditor-General, they shall consult with the OAG before seeking election or accepting an appointment. The OAG reserves the right to revoke the audit appointment if it believes a potential conflict of interest exists.

E *Employment with public entities*

- E1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where previous staff of the Auditor-General or the ASP have been employed by a public entity or a current member of the assurance team knows, or has reason to believe, that they may join a public entity at some time in the future. Further guidance on how a situation involving employment, or potential employment, with a public entity should be resolved is provided below.
- E2. Staff of the Auditor-General or ASPs are employed by public entities on a regular basis. In addition, arrangements are sometimes entered into to place staff (employed by ASPs or the Auditor-General) with public entities to assist with their career development. A significant threat to independence can arise if the person employed

by, or placed with, a public entity is in a position to exert direct and significant influence over the subject matter of the audit.

- E3. Paragraph 34 of AG PES 1 (Revised) notes that the Auditor-General is the auditor of all public entities and cannot refuse to accept or continue an audit engagement to eliminate threats to independence. Paragraph 35 of AG PES 1 (Revised) states that, if there is a conflict between PES 1 (Revised) and legislation relating to the statutory appointment of the Auditor-General, the Auditor-General will:
- (a) introduce safeguards to reduce the threat to independence to the extent that is reasonably possible in the circumstances; and
 - (b) disclose the threat to independence to those responsible for governance of the public entity and publicly disclose the matter in the auditor's report.
- E4. Where a significant threat to independence arises in respect of a person employed by, or placed with, a public entity, the Auditor-General will ensure the threat to independence is reduced to the extent that is reasonably possible by considering one or more of the following options:
- (a) the selection of the ASP and/or the Appointed Auditor;
 - (b) the terms and conditions of their appointment;
 - (c) the assignment of audit staff; and
 - (d) additional quality control processes.

F *Temporary staff assignments*

- F1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to temporary staff assignments to public entities.
- F2. The Auditor-General will not permit staff of the Auditor-General or ASP to participate in the audit of a public entity (or any other reporting engagement in connection with a public entity) until a period of two years has elapsed from the time the employee's placement as a temporary member of staff with that public entity ceased.

G *Recent service with a public entity*

- G1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where recent service with a public entity may create a threat to independence.
- G2. The Auditor-General will not permit staff of the Auditor-General or staff of an ASP to participate in the audit of a public entity (or any other reporting engagement in

connection with a public entity) within two years of the cessation of the employee's previous service as an officer, director, or employee with that public entity.

H *Serving as an officer or member of the governing body of a public entity*

- H1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where staff of the Auditor-General or an ASP serve as an officer or member of the governing body of a public entity.
- H2. The Auditor-General will not permit staff of the Auditor-General or an ASP to assume a role that involves decision-making that should be carried out by management or the owner, or alternatively assuming a role that involves staff of the Auditor-General or any ASP accepting responsibility for decisions that are properly the role of management.

For example, no member of an ASP shall be a member of the governing body or in any other way participate in the direction and control of the public entity. Specifically, the ASP shall not take responsibility for the financial statements of the public entity or accept a role of internal auditor. However, ASPs may provide accounting assistance and support to an internal audit function in keeping with the specific guidance in this Statement.

- H3. Specific exemptions to the general requirement in paragraph H2 above may be granted in the instance of membership of, or association with, a school Board of Trustees. The exemptions recognise the important societal role that staff of the Auditor-General or an ASP play in the country's education system.

Exemptions are documented in the School Auditor's Homepage.

I *Long association of senior personnel involved in annual audits with public entities*

- I1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where there has been a long association of senior personnel (who may be ASP staff or staff of the Auditor-General) with public entities. The Auditor-General has specific requirements relating to rotation of key audit partners and members of assurance teams who are involved in carrying out annual audits. The Auditor-General's specific requirements, which are detailed below, override the more general guidance in PES 1 (Revised).

12. Application date: The provisions within section I of this Statement apply with immediate effect. The key audit partner provisions applied from 1 January 2014, subject to the transitional provisions specified in PES 1 (Revised).
13. To maintain individual audit staff objectivity, Appointed Auditors and senior personnel involved in annual audits shall not (in audits of 150 budgeted hours or over) undertake the same audit tasks for more than six consecutive years.
14. In implementing the requirement of paragraph I3, the following principles and practices apply:
- (a) The individual who is appointed as the Appointed Auditor shall not carry out the same audit for more than six consecutive years. Having completed six consecutive years, a former Appointed Auditor will not become eligible to act again in the capacity of Appointed Auditor, or in any other capacity in relation to the audit (for example, as an engagement quality control reviewer/director), until the expiry of two consecutive annual audits following the conclusion of the previous audit appointment period. In addition, eligibility for further appointment after that two-audit period will require that the former Appointed Auditor does not carry out any professional and/or consulting engagements with the public entity during this period.
 - (b) Other individuals associated with the audit (who are classified as a “key audit partner”) shall not continue their association with the audit for more than six consecutive years. After such time, the individual shall not be associated with the engagement team or be a “key audit partner” for the entity for two years. During that period, the individual shall not be involved with the entity in any other professional capacity.
 - (c) Audit staff below Appointed Auditor level shall not continue their involvement with the same audit for more than six consecutive years if they retain substantially the same responsibility in relation to the conduct of the audit. Audit staff below Appointed Auditor level may therefore be involved for more than six consecutive years with a public entity provided their roles and responsibilities have substantially changed as a result of legitimate career development.
 - (d) The Appointed Auditor shall check annually that the staffing of annual audits complies with the requirements of this Statement.
 - (e) Where the public entity is listed under the New Zealand Stock Exchange, the rules on auditor rotation that apply to listed entities shall apply where they are more restrictive than those that apply under AG PES 1 (Revised).

- I5. The definition of “key audit partner”, the associated rotation requirements, and the transitional provisions that apply to “key audit partners” are specified in PES 1 (Revised) issued by the External Reporting Board. Please note that the rotation period for “key audit partners” under this Statement is six years, and not seven years as permitted under PES 1 (Revised).

“Key audit partner” is defined in PES 1 (Revised) as the engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, other audit partners may include, for example, audit partners responsible for significant subsidiaries or divisions.

For the purposes of this Statement a “key audit partner” will be the engagement partner or director (the Appointed Auditor), a second partner(s) or director(s), the engagement quality control reviewer, and, possibly, other audit partners. Specialists (such as tax or information systems specialists) and other technical experts are generally not key audit partners.

- I6. The Auditor-General reserves the right to extend the rotation period in the interests of maintaining audit quality.

J *Preparing accounting records and financial and performance information*

- J1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence in relation to the preparation of accounting records and financial statements. The Auditor-General has specific requirements relating to the preparation of accounting records and financial and performance information by staff of the Auditor-General or ASPs. The Auditor-General’s specific requirements, which are detailed below, override the more general guidance in PES 1 (Revised).

Temporary accounting assistance and compilation engagements

- J2. Staff of the Auditor-General or ASPs may provide temporary accounting assistance and compile the financial and performance information subject to compliance with paragraphs J3 to J5 below.

- J3. When conducting temporary accounting assistance and compilation engagements, staff of the Auditor-General or ASPs shall ensure that:
- (a) the public entity accepts the responsibility for the financial and performance information (including the accounting policies) as its own;
 - (b) the staff of the Auditor-General or ASP who carry out the temporary accounting assistance and/or compilation engagement do not function as employees or part of management in conducting the operations of the organisation;
 - (c) the nature of the temporary accounting assistance and/or compilation engagement is straightforward and does not require the staff of the Auditor-General or ASP to exercise their professional judgement (an example would be the preparation of cash-based financial statements for very small entities);
 - (d) processes and procedures are put in place to mitigate the risk of the staff of the Auditor-General or ASP auditing their own work (for instance, their work is reviewed by a more senior audit staff member); and
 - (e) the annual audit shall be carried out in keeping with the Auditor-General's auditing standards, which includes obtaining sufficient and appropriate audit evidence to enable the Appointed Auditor to form an objective opinion on the financial and performance information .
- J4. Staff of the Auditor-General or ASPs may only provide temporary accounting assistance or conduct compilation engagements for small public entities that are not public interest entities and whose size would tend to preclude the employment of suitably qualified personnel.
- J5. When carrying out these engagements, staff of the Auditor-General or ASPs shall not encourage a situation where the public entity becomes reliant on the staff of the Auditor-General or ASP for the provision of the service. Rather, the staff of the Auditor-General or ASP shall foster a situation where the public entity becomes increasingly self-reliant in recording accounting information and preparing its own financial and performance information.

Audit Service Providers shall not provide payroll services

- J6. ASPs shall not provide any payroll services to public entities.

K Valuation services

- K1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence in relation to valuation services. The Auditor-General has

specific requirements relating to provision of valuation services by ASPs. The Auditor-General's specific requirements, which are detailed below, override the more general guidance in PES 1 (Revised).

- K2. Engagements involving assistance in providing valuation services to public entities that result in the product of the valuation giving rise to asset or liability measurement in the Statement of Financial Position are not permitted. This prohibition exists irrespective of the materiality of the asset or liability to the financial and performance information. This prohibition does not extend to the giving of routine advice or discussion, or work of a confirmatory nature, on the adequacy of provisions or the valuation of assets or liabilities that are determined by the governing body of the public entity.

L *Provision of taxation advice and/or services to public entities*

- L1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence in relation to the provision of taxation services to public entities. The Auditor-General has specific requirements relating to provision of taxation services to public entities by ASPs. The Auditor-General's specific requirements, which are detailed below, override the more general guidance in PES 1 (Revised).
- L2. Engagements that involve giving tax advice to the public entity or parties acting on their behalf are prohibited if the advice:
- (a) involves, or could involve, tax evasion or a tax avoidance arrangement, as determined by the applicable laws; or
 - (b) is not in keeping with published Inland Revenue Department policy.
- L3. Staff of the Auditor-General or ASPs may provide taxation services of an assurance nature, such as reviewing tax computations and returns before filing. Staff of the Auditor-General or ASPs are, however, reminded of the prohibitions on staff of the Auditor-General or ASPs:
- (a) performing and auditing the same work;
 - (b) being involved in decision-making that should be undertaken by management or the owner of the public entity; and
 - (c) assisting management in providing valuation services. The prohibition exists irrespective of whether the valuation is performed for tax purposes only, or if the valuation will have an effect on the financial statements.

This means that staff of the Auditor-General or ASPs cannot carry out engagements involving the computation of income tax or other tax liabilities (or assets) for the purposes of the financial and performance information or returns to the Inland Revenue Department.

- L4. With reference to paragraph L3, where staff of the Auditor-General or ASPs are requested to review a public entity's tax computations or returns before filing, the staff of the Auditor-General or ASP should assess whether the public entity has the in-house capability to determine its tax position. If the public entity does not have the required capability and has prepared "first draft" tax computations or returns for review that the staff of the Auditor-General or ASP regard as unreliable, this would effectively mean the staff of the Auditor-General or ASP are determining the public entity's tax position, which creates an unacceptable "self-review" threat to independence. The acceptance of such engagements is therefore prohibited.

Assisting public entities to obtain binding and non-binding rulings

- L5. Public entities may choose to obtain a degree of certainty about an aspect of their tax affairs by seeking either a binding or non-binding ruling from the Inland Revenue Department. In doing so, a public entity may request assistance from an ASP to obtain a binding or non-binding ruling. Engagements of this nature do not satisfy the criteria of an "assurance" engagement (refer to paragraph 53 of AG PES 1 (Revised)). Rather than providing assurance about a matter of accountability, these engagements involve a process of assisting and advising a public entity to obtain a degree of certainty about its tax affairs.
- L6. Engagements to assist public entities obtain binding or non-binding rulings are therefore subject to the fee-cap specified in paragraphs 61 to 63 of AG PES 1 (Revised). Such engagements are often open-ended in nature and can generate significant fees to the ASP. This can result in fee-cap pressures. It is important therefore that ASPs recognise the potential effect of these engagements on the fee-cap, and that such engagements are only accepted when the ASP is confident the fee-cap will not be exceeded.

Assisting public entities with tax investigations

- L7. As a general rule, ASPs are prohibited from entering into engagements with public entities to assist with the public entity's interactions with the Inland Revenue Department in the context of a tax investigation. Such engagements may result in an "advocacy threat" to the ASP and the Auditor-General.

- L8. An ASP should only accept an engagement to assist a public entity with a tax investigation:
- (a) when the public entity does not have its own resources to address the demands of the tax investigation; and
 - (b) where it is impractical to use any firm other than the ASP because of the ASP's specialised understanding of the public entity's taxation issues.
- Such a situation might arise if the ASP was the public entity's tax advisor before the ASP was appointed to carry out the audit on behalf of the Auditor-General, and the tax investigation is likely to focus on matters that were considered by the ASP when it was the public entity's tax advisor.
- L9. If, during the course of a tax investigation, the ASP considers that they could assume an advocacy role for the public entity on tax matters, they shall inform the OAG. Any threats to independence will be assessed and an appropriate course of action agreed to reduce the threats to independence to an acceptable level.
- L10. Assistance with tax investigations are unlikely to satisfy the criteria of an "assurance" engagement (refer to paragraph 53 of AG PES 1 (Revised)) and will therefore be subject to the fee-cap specified in paragraphs 61 to 63 of AG PES 1 (Revised). Where the circumstances, as outlined in paragraph L8, mean that it would be unreasonable for the ASP not to assist the public entity with the tax investigation, and it is likely the fee-cap will be exceeded as a result of accepting the engagement, the OAG will normally grant an exemption to exceed the fee-cap.

M Internal audit services

- M1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to the provision of internal audit services to public entities. The Auditor-General has specific requirements relating to provision of internal audit services to public entities by staff of the Auditor-General or ASPs. The Auditor-General's specific requirements, which are detailed below, override the more general guidance in PES 1 (Revised).
- M2. Staff of the Auditor-General or ASPs may provide support to a public entity's internal audit (or similar) function subject to compliance with paragraphs M3 to M6 below.
- M3. Staff of the Auditor-General or ASPs may provide support to an internal audit function only where the public entity has:

- (a) designated a competent person(s) within senior management to be responsible for the internal audit function;
 - (b) determined the scope, risk, and frequency of internal audit activities; and
 - (c) accepted responsibility to evaluate the adequacy of the internal audit procedures performed and to respond to the findings and results.
- M4. When providing assistance to an internal audit function, ASPs or staff are reminded that they:
- (a) may not perform management functions or make decisions properly made by management;
 - (b) shall not act or appear to act in a capacity equivalent to that of an employee;
 - (c) shall make all the results of the work available to the OAG; and
 - (d) shall ensure that the public entity is aware that any matters identified will be brought to the attention of the Auditor-General, who is free to report as they see fit.
- M5. The conditions set out in paragraphs M3 and M4 above shall be included in the engagement letter required to be prepared in keeping with paragraphs 64 to 67.
- M6. The provision of support to an internal audit function by staff of the Auditor-General or an ASP, in keeping with paragraphs M1 to M5 above, is generally of a different nature to a temporary staff assignment to a public entity. As a consequence, the restrictions in paragraphs F1 and F2 would not normally apply.

N *IT systems services*

- N1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to the provision of information technology systems services to public entities. The Auditor-General's specific requirements relating to provision of information technology systems services to public entities by ASPs, and which override the more general guidance in PES 1 (Revised), are detailed below.
- N2. Engagements by ASPs that involve the design and/or implementation of information technology systems that have a direct or indirect link to the audit subject matter are prohibited. The Auditor-General must be able to provide objective and impartial advice to Parliament. If the Auditor-General's agent has been involved in the design and/or implementation of a public entity's information technology systems, the ability of the Auditor-General to comment objectively (or the perception around the ability to comment objectively) will have been impaired.

- N3. An example of a prohibited engagement relating to information technology systems involved a request for an ASP to design and implement a “pricing” model for a public entity. The “pricing” model was to be used as an input into the process by which the public entity priced its products – taking into account the return required by its shareholders. Although the link between the “pricing” model and the financial statements was not strong, the ASP’s involvement in the engagement would have created an unacceptable “self-interest” threat to independence because:
- (a) the “pricing” model could provide circumstantial audit evidence to support the public entity’s reported revenue, as disclosed in its financial statements;
 - (b) the ASP’s involvement in the design and implementation of the “pricing” model would prejudice the Auditor-General’s ability to “audit” the model at a later date, if necessary; and
 - (c) the “pricing model” may be relevant in assessing the financial viability of the entity and its ability to continue to operate as a going concern.

O *Litigation support services*

- O1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to provision of litigation support services to public entities. The Auditor-General’s specific requirements relating to provision of litigation support services to public entities by ASPs, and which override the more general guidance in PES 1 (Revised), are detailed below.
- O2. Engagements by ASPs that involve the provision of litigation support services to public entities are prohibited. Such engagements create an “advocacy” threat to independence that could not be reduced to an acceptable level by the application of any safeguards.
- O3. The prohibition on ASPs entering into engagements that involve the provision of litigation support services to public entities is reinforced by the possibility that the litigation may involve a dispute between two public entities, both of which are subject to audit by the Auditor-General. Other disputes may arise between a public entity and its stakeholders – and the stakeholder group may be reliant on the expression of an independent opinion by the Auditor-General. In these circumstances, it is essential that the independence of the Auditor-General is maintained through the ASP not accepting any engagements involving the provision of litigation support services.

P *Legal services*

- P1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to provision of legal services to public entities. The Auditor-General's specific requirements relating to provision of legal services to public entities by ASPs, and which override the more general guidance in PES 1 (Revised), are detailed below.
- P2. Engagements by ASPs that involve the provision of legal services to public entities are prohibited. Such engagements create "self-review" and "advocacy" threats to independence that could not be reduced to an acceptable level by the application of any safeguards.

Q *Recruiting services*

- Q1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to the provision of recruiting services to public entities.

R *Corporate finance services*

- R1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to provision of corporate finance services advice or assistance to public entities. The Auditor-General's specific requirements relating to provision of corporate finance services advice or assistance to public entities by ASPs, and which override the more general guidance in PES 1 (Revised), are detailed below.
- R2. Engagements by ASPs that involve the provision of corporate finance services advice or assistance to public entities are prohibited when they extend into the areas of strategic planning, investment options, or other engagements that may directly affect the strategic direction of the public entity or its business units. Such engagements create "self-review" threats to independence that could not be reduced to an acceptable level by the application of any safeguards.
- R3. An example of a prohibited engagement relating to corporate finance services advice or assistance involved a request for an ASP to identify and approach potential acquisition targets for a public entity. The ASP's involvement in this engagement would have created an unacceptable "self-review" threat to independence because:

- (a) The engagement would have required the ASP to make a recommendation to public entity management of a preferred option. Management, in seeking the expertise of the ASP, would rely on the ASP's advice. This situation effectively makes the ASP a "de-facto" decision-maker in that the ASP is closely associated with a decision that should be undertaken by the management or the owner of the public entity.
- (b) The engagement would constrain the ability of the ASP and the Auditor-General to objectively examine and report on the public entity's investment or expansion decisions or processes at a later date, if necessary.

S Fees

Fees – Relative size

- S1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to fees. The Auditor-General has specific requirements relating to fees. The Auditor-General's specific requirements, which are detailed below, override the more general guidance in PES 1 (Revised).
- S2. For the purposes of paragraphs S3 to S9, ASP is defined exclusive of any larger structure that is aimed at cooperation and:
 - that is clearly aimed at profit or cost sharing; or
 - that shares any of the following: common ownership, control, or management; common quality control policies and procedures; common business strategy; the use of a common brand-name; or a significant part of professional services.The OAG reserves the right to rule on whether an association exists.
- S3. ASPs shall ensure that independence is not put at risk by economic factors. ASPs shall avoid undue economic dependence on the revenues derived from any one public entity so that the public perception of the ASP's objectivity is not likely to be in jeopardy.
- S4. ASPs shall consider and document the effect on independence when the total fees in the financial reporting period paid by the public entity or group of connected public entities exceed 15% of the gross fees of the practice or audit firm. The 15% fee limit applies to the definition of ASP in S2.
- S5. ASPs can demonstrate that undue economic dependence does not place independence at risk by ensuring that the fees from one public entity or group of

public entities do not exceed an appropriate limit. In calculating the 15% limit, ASPs shall take into account fees derived from both audit and other engagements provided to the public entity or group of connected public entities during the financial reporting period of the public entity. The denominator for the equation is to be gross fees of the ASP for its most recent year-end.

- S6. In circumstances where the remuneration of an ASP depends on the profits of any one office within a firm, and that office regularly depends on one public entity or a group of connected public entities for a significant proportion of its total fees, or where one public entity may be significant to the position of an Appointed Auditor within an ASP, freedom from undue economic influence shall be demonstrated by ensuring that adequate quality control procedures are in place. This could include the involvement of an engagement quality control review partner, or equivalent, from another office of the firm or from another firm.
- S7. Exceeding the 15% threshold does not in itself mean that independence has been impaired because of undue economic dependence and that the provision of audit and/or other engagements shall cease. It is a point at which ASPs are formally required to consider the implications of deriving a significant proportion of their revenues from one source on their ability to remain independent of the public entity.
- S8. The ASP shall consider whether the fees derived from engagements other than the annual audit might compromise independence through an actual or perceived undue economic dependence on the receipt of those fees, regardless of the broad fee limit set in paragraph S4.
- S9. Fees obtained from other engagements suggest that a public entity may be able to exert undue pressure on the ASP through the threat of their removal. Although the earning of fees from such engagements does not necessarily impair the ASP's independence, the ASP shall consider the effect on independence of the level of fees derived.

Contingent fees

- S10. The setting of contingent or success fees in respect of any service provided by staff of the Auditor-General or an ASP to a public entity is not permitted. The setting of such fees creates a "self-interest" threat to independence that could not be reduced to an acceptable level by the application of any safeguards.

T *Compensation and evaluation policies*

- T1. PES 1 (Revised) provides guidance where a member of the audit team is evaluated on, or compensated for, selling non-assurance services to the entity subject to audit.
- T2. No key audit partner or other member of the audit team shall be evaluated on, or compensated for, selling non-assurance services to the entity subject to audit.

U *Gifts and hospitality*

- U1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence relating to gifts and hospitality.
- U2. No firm or individual shall accept gifts or hospitality, unless the value is trivial and inconsequential.

V *Actual or threatened litigation*

- V1. PES 1 (Revised) provides guidance on the application of the conceptual framework approach to independence where there is actual or threatened litigation.
- V2. When an Appointed Auditor or an ASP becomes aware of actual or threatened litigation concerning an entity they audit on behalf of the Auditor-General, they shall immediately advise the Assistant Auditor-General – Accounting and Auditing Policy at the OAG.

Appendix 3 – Applicability of PES 1 (Revised) to annual audits and/or other work carried out on behalf of the Auditor-General

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
NEW ZEALAND PREFACE	
Page 7	No additional requirement or interpretation.
NEW ZEALAND SCOPE AND APPLICATION	
Paragraphs NZ1.1 to NZ1.4	No additional requirement or interpretation.
PART A: FUNDAMENTAL PRINCIPLES	
SECTION 100 – Introduction and fundamental principles	
Paragraph 100.1	No additional requirement or interpretation.
Paragraph 100.2	The Auditor-General applies a higher standard in determining if the fundamental principles have been compromised. This standard, and the reasons behind it, are set out in the Auditor-General's position on "independence in appearance". The underlying principle in establishing the Auditor-General's standard on "independence in appearance" shall be applied in determining if other fundamental principles have been compromised. Refer to paragraphs 28 to 32 of AG PES 1 (Revised).
Paragraphs 100.3 to 100.6	No additional requirement or interpretation.
Paragraph 100.7	In determining if the fundamental principles have been compromised the higher standard established by the Auditor-General shall be applied. For the specific reference to AG PES 1 (Revised), refer to the comments relating to paragraph 100.2 of PES 1 (Revised) above.
Paragraphs 100.8 to 100.9	No additional requirement or interpretation.
Paragraph 100.10	Where the Appointed Auditor, or their firm, identifies a breach of an independence

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	provision of AG PES 1 (Revised) they shall report the breach to the Assistant Auditor-General – Accounting and Auditing Policy immediately. Refer to paragraph 38 of AG PES 1 (Revised).
Paragraphs 100.11 to 100.26	No additional requirement or interpretation.
SECTION 110 – Integrity	
Paragraphs 110.1 to 110.3	No additional requirement or interpretation.
SECTION 120 – Objectivity	
Paragraphs 120.1 to 120.2	The Auditor-General has higher audit independence standards than the standards set out in PES 1 (Revised). Refer to paragraphs 23 to 73 of AG PES 1 (Revised).
SECTION 130 – Professional competence and due care	
Paragraphs 130.1 to 130.6	Appointed auditors are required to possess additional technical and behavioural competencies in carrying out annual audits and/or other work on behalf of the Auditor-General. Refer to paragraphs 11 to 15 of AG PES 1 (Revised).
SECTION 140 – Confidentiality	
Paragraphs 140.1 to 140.6	<p>Clarification of the ownership of information obtained in carrying out annual audits and/or other work on behalf of the Auditor-General is provided in paragraphs 16 and 18 of AG PES 1 (Revised).</p> <p>In addition, specific requirements exist when in contact with the news media, attending public meetings, and in prohibiting the private use of information. Refer to paragraphs 19 to 21 of AG PES 1 (Revised).</p>
Paragraphs 140.7, NZ140.7.1 and 140.8	Section 30 of the Public Audit Act 2001

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	establishes the disclosure requirements for the Auditor-General, and take precedence over the requirements of paragraphs 140.7, NZ140.7.1 and 140.8.
SECTION 150 – Professional behaviour	
Paragraphs 150.1 to 150.2	No additional requirement or interpretation.
PART B: APPLICATION OF THE FUNDAMENTAL PRINCIPLES	
SECTION 200 – Introduction	
Paragraphs 200.1 to 200.9	No additional requirement or interpretation.
Paragraph 200.10	The Auditor-General applies a higher standard in determining if the fundamental principles have been compromised. This standard, and the reasons behind it, are set out in the Auditor-General's position on "independence in appearance". The underlying principle in establishing the Auditor-General's standard on "independence in appearance" shall be applied in determining if other fundamental principles have been compromised. Refer to paragraphs 28 to 32 of AG PES 1 (Revised).
Paragraph 200.11	No additional requirement or interpretation.
Paragraph 200.12	<p>An important "firm-wide" safeguard in audits carried out for the Auditor-General is to refer any circumstances that either compromise, or may compromise, compliance with fundamental principles to the OAG.</p> <p>Please note that the safeguard of "using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client" does not satisfy "independence in appearance" and is not a satisfactory</p>

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	safeguard. Refer to paragraphs 28 to 32 of AG PES 1 (Revised).
Paragraph 200.13	<p>An important engagement specific safeguard in audits carried out for the Auditor-General is to refer any circumstances that either compromise, or may compromise, compliance with fundamental principles to the OAG.</p> <p>Please note that the safeguard of “having an assurance partner who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary” does not satisfy “independence in appearance” and is not a satisfactory safeguard. Refer to paragraphs 28 to 32 of AG PES 1 (Revised).</p> <p>In addition, other examples of engagement-specific safeguards are not considered to be appropriate because the interests of the party (to whom the matter is consulted with, discussed with, or disclosed to) will often differ from the public interest. The safeguards referred to include:</p> <ul style="list-style-type: none"> - “Consulting an independent third party, such as a committee of independent directors, a professional or regulatory body or another assurance practitioner.” - “Discussing ethical issues with those charged with governance of the client.” - “Disclosing to those charged with governance of the client the nature of the services and extent of fees charged.”

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
Paragraphs 200.14 to 200.15	No additional requirement or interpretation.
SECTION 210 – Professional appointment	
Paragraphs 210.1 to 210.7	As a statutory auditor the Auditor-General cannot decline an engagement or refuse to continue an engagement. If circumstances exist that would normally lead an assurance practitioner to decline an engagement or refuse to continue an engagement then the appointed auditor shall advise the OAG of the circumstances. Refer to paragraphs 10 to 11 of AG PES 3 (Amended).
Paragraphs 210.8 to 210.14	<p>Section 30 of the Public Audit Act 2001 establishes the disclosure requirements for the Auditor-General, and take precedence over the requirements of paragraphs 210.8 and 210.14.</p> <p>Although section 30 applies to information obtained when carrying out annual audits and/or other work on behalf of the Auditor-General, the Auditor-General will normally apply the section 30 criteria in determining the appropriate disclosures to be made where a change in the Auditor-General's appointment occurs. Such a change will arise when an entity either becomes, or ceases being, a "public entity".</p>
SECTION 220 – Conflicts of interest	
Paragraphs 220.1 to 220.2	No additional requirement or interpretation.
Paragraph 220.3	The Auditor-General applies a higher standard in assessing whether a conflict of interest exists, or may arise in the future. This standard, and the reasons behind it, are set out in the Auditor-General's position on "independence in appearance". The

Reference in PES 1 (Revised)	Auditor-General’s requirement or interpretation in AG PES 1 (Revised)
	underlying principle in establishing the Auditor-General’s standard on “independence in appearance” shall be applied in determining if a conflict of interest exists, or may arise in the future. Refer to paragraphs 28 to 32 of AG PES 1 (Revised).
Paragraphs 220.4 to 220.8	No additional requirement or interpretation.
Paragraph 220.9	If a conflict of interest is identified the assurance practitioner shall advise the OAG. The OAG, in conjunction with the appointed auditor will determine any actions to be taken to respond to the conflict of interest.
Paragraphs 220.10 to NZ220.14	No additional requirement or interpretation.
SECTION 225 – Responding to non-compliance with laws and regulations	
Paragraphs 225.1 to NZ 225.38.1	<p><i>Application to Annual Audits</i></p> <p>If the Appointed Auditor identifies non-compliance with laws and regulations, they shall follow the requirements of paragraphs 14 to 25 of AG ISA (NZ) 250.</p> <p>If the non-compliance is of a nature that may cause the Appointed Auditor to resign from the engagement, they shall immediately contact the Assistant Auditor-General – Accounting and Auditing Policy.</p> <p><i>Application to performance audits, other auditing services and other work carried out by or on behalf of the Auditor-General</i></p> <p>If the auditor identifies possible non-compliance with laws and regulations, and the non-compliance could be relevant to users, they shall obtain sufficient appropriate evidence to support their finding (see</p>

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	<p>paragraph 20 of AG-5).</p> <p>If there is uncertainty about the non-compliance, the auditor will often obtain the view of the responsible public entity about the non-compliance, which may include accessing any legal advice it has obtained. The auditor will usually consult the OAG when concluding on whether non-compliance has occurred.</p> <p>Application to inquiries</p> <p>If the inquiry team identifies possible non-compliance with laws and regulations, and the non-compliance could be relevant to the inquiry, they shall obtain sufficient appropriate evidence to support their finding.</p>
SECTION 240 – Fees and other types of remuneration	
Paragraphs 240.1 to 240.2	No additional requirement or interpretation.
Paragraphs 240.3 to 240.4	Contingent fee arrangements are not permitted for non-assurance engagements carried out by ASPs. Refer to paragraph S10 of Appendix 2 to AG PES 1 (Revised).
Paragraphs 240.8 to NZ240.9	No additional requirement or interpretation.
SECTION 250 – Marketing assurance services	
Paragraphs 250.1 to 250.2	No additional requirement or interpretation.
SECTION 260 – Gifts and hospitality	
Paragraph 260.1	No additional requirement or interpretation.
Paragraphs 260.2 and 260.3	No firm or individual subject to AG PES 1 (Revised) shall accept gifts or hospitality, unless the value is trivial and inconsequential. Refer to paragraph U1 and U2 of Appendix 2 of AG PES 1 (Revised).

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
SECTION 270 – Custody of client assets	
Paragraphs 270.1 to 270.3	No additional requirement or interpretation.
SECTION 280 – Objectivity	
Paragraph 280.1	No additional requirement or interpretation.
Paragraph 280.2	<p>Some aspects of PES 1 (Revised) do not apply to the Auditor-General because they do not meet the minimum standards of independence required for annual audits and/or other work carried out on behalf of the Auditor-General. The specific aspects of PES 1 (Revised) that do not apply to the Auditor-General are:</p> <ul style="list-style-type: none"> - paragraphs 290.500 to 290.514 (concerning reports that include a restriction on use and distribution) in respect of annual audits, performance audits and inquiries. Restrictions on use and distribution may apply to certain engagements carried out under section 17 of the Public Audit Act 2001, or in respect of certain other engagements carried out by private sector Audit Service Providers on behalf of the Auditor-General; and - section 291.
Paragraph 280.3	No additional requirement or interpretation.
Paragraph 280.4	Where an appointed auditor, or their firm, identifies a threat to objectivity they shall advise the OAG. Refer to paragraphs 38 and 39 of AG PES 1 (Revised).
SECTION 290 – Independence – Audit and review engagements	
Structure of section	
Paragraph 290.1	Section 290 of PES 1 (Revised) sets out the base of minimum standards for annual audits

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	and/or other work carried out on behalf of the Auditor-General. Section 291 of PES 1 (Revised) does not apply to the Auditor-General.
Paragraph NZ290.1.1	No additional requirement or interpretation.
Paragraph 290.2	Paragraphs 290.500 to 290.514 (concerning reports that include a restriction on use and distribution) in respect of annual audits, performance audits and inquiries. Restrictions on use and distribution may apply to certain engagements carried out under section 17 of the Public Audit Act 2001, or in respect of certain other engagements carried out by private sector Audit Service Providers on behalf of the Auditor-General, do not apply to the Auditor-General.
Paragraph 290.3	No additional requirement or interpretation.
A conceptual framework approach to independence	
Paragraphs 290.4 to 290.5	No additional requirement or interpretation.
Paragraph 290.6	The Auditor-General applies a higher standard in determining if independence has been threatened. This standard, and the reasons behind it, are set out in paragraphs 28 to 32 of AG PES 1 (Revised).
Paragraphs 290.7 to 290.12	No additional requirement or interpretation.
Networks and network firms	
Paragraphs 290.13 to 290.24	The decision on whether a network, or a network firm, threatens audit independence will be made by the OAG, having taken account of the guidance in paragraphs 290.13 to 290.24 of PES 1 (Revised). The OAG decision will be based on the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
Public interest entities	
Paragraphs NZ 290.25 to 290.26	No additional requirement or interpretation.
Related entities	
Paragraph 290.27	No additional requirement or interpretation.
Those charged with governance	
Paragraph 290.28	Regular communication on independence matters with those charged with governance of an entity is encouraged. However, the final decision on independence matters rests with the OAG and will be based on the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).
Documentation	
Paragraph 290.29	No additional requirement or interpretation.
Engagement period	
Paragraph 290.30	No additional requirement or interpretation.
Paragraphs 290.31 to 290.32	The decision on whether an ASP's previous involvement with an entity might threaten independence will be made by the OAG, taking account of the guidance in paragraphs 290.31 to 290.32 of PES 1 (Revised). The OAG decision will be based on the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).
Mergers and acquisitions	
Paragraphs 290.33 to 290.38	The decision on whether a merger or acquisition might threaten independence will be made by the OAG, taking account of the guidance in paragraphs 290.33 to 290.38 of PES 1 (Revised). The OAG decision will be based on the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
Breach of a provision of this section	
Paragraphs 290.39 to 290.49	<p>ASPs and/or appointed auditors shall advise the Assistant Auditor-General – Accounting and Auditing Policy at the OAG if there has been a breach of the independence requirements of AG PES 1 (Revised), or if they have reason to believe that a breach may arise in the future. Refer to paragraph 38 of AG PES 1 (Revised).</p> <p>The OAG will advise the action to be taken having applied the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).</p>
Application of the conceptual framework approach to independence	
Paragraph 290.100	Paragraphs 290.102 to 290.226 of PES 1 (Revised) establish the base of specific circumstances and relationships that create or may create threats to independence. However, in some instances the Auditor-General has developed more stringent requirements than those established in paragraphs 290.102 to 290.226. The more stringent requirements are specified in paragraphs 23 to 73 of AG PES 1 (Revised).
Paragraph 290.101	For the purposes of informing the OAG all interests should be regarded as material to an individual.
Financial interests	
Paragraphs 290.102 to 290.116	These paragraphs are subject to the requirements in paragraphs A1 to A12 of Appendix 2 of AG PES 1 (Revised).
Loans and guarantees	
Paragraphs 290.117 to 290.122	No additional requirement or interpretation.

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
Business relationships	
Paragraphs 290.123 to 290.125	No additional requirement or interpretation.
Family and personal relationships	
Paragraphs 290.126 to 290.131	These paragraphs are subject to the requirements in paragraphs D1 to D4 of Appendix 2 of AG PES 1 (Revised).
Employment with an audit or review client	
Paragraphs 290.132 to 290.139	These paragraphs are subject to the requirements in paragraphs E1 to E4 of Appendix 2 of AG PES 1 (Revised).
Temporary staff assignments	
Paragraph 290.140	This paragraph is subject to the requirements in paragraphs F1 to F2 of Appendix 2 of AG PES 1 (Revised).
Recent service with an audit or review client	
Paragraphs 290.141 to 290.143	These paragraphs are subject to the requirements in paragraphs G1 to G2 of Appendix 2 of AG PES 1 (Revised).
Serving as a director or officer of an audit or review client	
Paragraphs NZ290.144 to 290.147	These paragraphs are subject to the requirements in paragraphs H1 to H3 of Appendix 2 of AG PES 1 (Revised).
Long association of senior personnel (including partner rotation) with an audit or review client	
Paragraphs 290.148 to 290.153	These paragraphs are subject to the requirements in paragraphs I1 to I6 of Appendix 2 of AG PES 1 (Revised).
Provision of non-assurance services to audit or review clients	
Paragraphs 290.154 to 290.158	Unless the non-assurance services are permitted under AG PES 1 (Revised), Appointed Auditors shall advise the OAG if there is any doubt about whether the non-

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	<p>assurance services can be provided. Advice to the OAG is required for non-assurance services under paragraphs 290.157 and 290.158.</p> <p>ASPs and/or appointed auditors shall advise the OAG if the network firm is contemplating providing assurance or non-assurance services to an entity related to a public entity where the appointed auditor is carrying out an annual audit and/or other work on behalf of the Auditor-General.</p> <p>The OAG will make a decision based on the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).</p>
<i>Management responsibilities</i>	
Paragraphs 290.159 to 290.162	No additional requirement or interpretation.
Paragraph 290.163	<p>ASPs shall not carry out activities for a public entity without prior OAG approval. Activities include matters that are routine and administrative.</p> <p>ASPs and/or appointed auditors may seek OAG approval to carry out activities for a public entity. The OAG will make a decision based on the principles and approach set out in paragraphs 28 to 32 of AG PES 1 (Revised).</p>
<i>Preparing accounting records and financial statements</i>	
Paragraphs 290.164 to 290.174	<p>These paragraphs are subject to the requirements in paragraphs J1 to J6 of Appendix 2 of AG PES 1 (Revised).</p> <p>For the avoidance of doubt ASPs shall not</p>

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	provide any payroll services to public entities.
<i>Valuation services</i>	
Paragraphs 290.171 to 290.176	These paragraphs are subject to the requirements in paragraphs K1 to K2 of Appendix 2 of AG PES 1 (Revised).
<i>Taxation services</i>	
Paragraphs 290.177 to 290.189	These paragraphs are subject to the requirements in paragraphs L1 to L10 of Appendix 2 of AG PES 1 (Revised).
<i>Internal audit services</i>	
Paragraphs 290.190 to 290.195	These paragraphs are subject to the requirements in paragraphs M1 to M6 of Appendix 2 of AG PES 1 (Revised).
<i>IT systems services</i>	
Paragraphs 290.196 to 290.201	These paragraphs are subject to the requirements in paragraphs N1 to N3 of Appendix 2 of AG PES 1 (Revised).
<i>Litigation support services</i>	
Paragraphs 290.202 to 290.203	These paragraphs are subject to the requirements in paragraphs O1 to O3 of Appendix 2 of AG PES 1 (Revised).
<i>Legal services</i>	
Paragraphs 290.204 to 290.208	These paragraphs are subject to the requirements in paragraphs P1 to P2 of Appendix 2 of AG PES 1 (Revised).
<i>Recruiting services</i>	
Paragraphs 290.209 to 290.210	No additional requirement or interpretation.
<i>Corporate finance services</i>	
Paragraphs 290.211 to 290.214	These paragraphs are subject to the requirements in paragraphs R1 to R3 of Appendix 2 of AG PES 1 (Revised).

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
Fees	
<i>Fees – relative size</i>	
Paragraphs 290.215 to 290.217	These paragraphs are subject to the requirements in paragraphs S1 to S9 of Appendix 2 of AG PES 1 (Revised).
<i>Fees – Overdue</i>	
Paragraph 290.218	No additional requirement or interpretation.
<i>Contingent fees</i>	
Paragraphs 290.219 to 290.222	These paragraphs are subject to the requirement in paragraph S10 of Appendix 2 of AG PES 1 (Revised).
Compensation and evaluation policies	
Paragraphs 290.223 to 290.224	These paragraphs are subject to the requirements in paragraphs of T1 and T2 of Appendix 2 of AG PES 1 (Revised).
Gifts and hospitality	
Paragraph 290.225	These paragraphs are subject to the requirements in paragraphs U1 and U2 of Appendix 2 of AG PES 1 (Revised).
Actual and threatened litigation	
Paragraph 290.226	These paragraphs are subject to the requirement in paragraphs V1 and V2 of Appendix 2 of AG PES 1 (Revised).
Reports that include a restriction on use and distribution	
Paragraphs 290.500 to 290.514	Paragraphs 290.500 to 290.514 (concerning reports that include a restriction on use and distribution) in respect of annual audits, performance audits and inquiries. Restrictions on use and distribution may apply to certain engagements carried out under section 17 of the Public Audit Act 2001, or in respect of certain other engagements

Reference in PES 1 (Revised)	Auditor-General's requirement or interpretation in AG PES 1 (Revised)
	carried out by private sector Audit Service Providers on behalf of the Auditor-General.
SECTION 291 – Independence – Other assurance engagements	
Paragraphs 291.1 to 291.156	Paragraphs 291.1 to 291.156 of PES 1 (Revised) do not apply because they do not meet the minimum standards of independence required for annual audits and/or other work carried out on behalf of the Auditor-General.
Interpretation 2005-1	Interpretation 2005-1 accompanies paragraphs 291.1 to 291.156 of PES 1 (Revised), and does not apply because it does not meet the minimum standards of independence required for annual audits and/or other work carried out on behalf of the Auditor-General.
DEFINITIONS	
	The Auditor-General's Glossary of Terms contains amended definitions for the terms " <i>Acceptable level</i> " and " <i>Independence</i> ".
EFFECTIVE DATE	
	AG PES 1 (Revised) applies from 1 April 2017.